

**The Chinese University of Hong Kong**  
**Department of Government & Public Administration**  
*Dissertation*

**The Politics of Public Budgeting in Hong Kong**  
**1970s ~ 1990s:**  
**A Historical-Institutional Approach**

*Dissertation presented to Department of Government & Public Administration,  
The Chinese University of Hong Kong  
as partial fulfillment for the Master of Philosophy in Social Sciences*

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July 1999



***To my Lord, Jesus and the Spirit.***

***"Unless the Lord builds the house, its builder labour in vain. . ." (Psalm, 127:1)***

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# ACKNOWLEDGMENTS

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First of all, I would like to express my gratitude to my dissertation supervisor, Prof. LEE Wing-yee, Eliza. Being one of her students, I was benefited from and was stimulated by her lectures and our academic discussion, which greatly helped on the theoretical framing of my dissertation, and so does the completion of this research project.

In the writing of this dissertation, I have benefited tremendously from interviews and discussion with officials in the Hong Kong Government and the Finance Committee of the Hong Kong Legislative Council. They cannot be named explicitly for obvious reasons, but it is my pleasure to express my appreciation to all of them. Also, I have benefited from a number of scholars who made valuable comments on the earlier drafts of my dissertation, including Prof. KUAN Hsin-chi and Mr. WONG Wang-fat in Department of Government and Public Administration at The Chinese University of Hong Kong, Prof. WONG Chack-kei in Department of Social Work at The Chinese University of Hong Kong and Dr. LI Pang-kwong in Department of Politics and Sociology at Lingnan University. Needless to say, none of them (or those I have not mentioned by name) is responsible to any of the shortcomings this dissertation may possess. Hereby gratitude also need to be expressed to the scholars in granting me approval in drawing their research works as the reference of my study, including Dr. CHEUNG Bing-leung and Dr. WONG, Linda in Department of Public and Social Administration at The City University of Hong Kong; Prof. TANG Shu-hung in Department of Economics at The Hong Kong Baptist University; and Dr. LI Pang-kwong and Dr. John Dixon in Department of Politics and Sociology at Lingnan University.

Moreover, I would like to take this opportunity to thank The Chinese University of Hong Kong for granting me the graduate assistantship. In return, I can progress my study plan in such a young age, can earn the experience of



tutorial teaching and can earn a living in the meant time. Also, I need to give thanks to all the teachers in Department of Government and Public Administration at The Chinese University of Hong Kong for offering me seminars in various theoretical domains and valuable suggestions towards my study, especially Prof KUAN Hsin-chi and Prof. WONG Kam-chow. I have benefited greatly from all of them. Furthermore, I should also express my truthful gratitude to the teachers in the Faculty of Social Sciences at Lingnan University Hong Kong, especially my enlightening teacher, Dr. LI Pang-kwong. He has lighted up my interest in political science. His hearted academic cultivation and encouragement inherently provide me a fundamental buttress to pursuit the studying of this Master of Philosophy Programme. He is my 'significant other' throughout my study journey of political science.

Persons who offered me technical support, of course, deserve to be mentioned, including Mr. HUNG Hoi-tim, Ms. LAM Wing-yan, Mr. LAW Kam-yiu, Ms. LIU Mei-heung, Ms. LUI Yik-lin, Uncle Ming and the library staffs at The Chinese University of Hong Kong. Also, I would like to express my thanks to all my colleagues and classmates at The Chinese University of Hong Kong, Lingnan University, as well as The Hong Kong Institute of Education for standing a boring person for such a long period of time, especially Mr. HO, Pak-kin, Mr. NG, Kwai-wah, Mr. SO Lok, Mr. SOONG Siu-kwok, Mr. TAM Wai-keung, Mr. YANG Hong-chang, Mr. WU She-kei, Ms. YEUNG Lai-ching and Ms. YU, Lai-ngor.

Finally, I must mention my best friend, CW. I would like to devote my greatest gratitude and my deepest thanks to him. His help in all aspects of my life, his firm standing on my side either in the good times or in the bad times, his understanding and tolerance of my temper and his unfailing support made the completion of this dissertation possible. I do feel so fortunate and extremely glorious for having such a good friend and I really treasure our wonderful friendship.

# TABLE OF CONTENTS

Acknowledgments	iii-iv
List of Tables and Figures	vii-ix
List of Abbreviations	x
Abstract	xi-xiv
 <b>CHAPTER ONE: INTRODUCTION</b>	 <b>1-39</b>
<b>1.1 Scope and Purpose</b>	<b>1-2</b>
<b>1.2 Literature Review</b>	<b>3-18</b>
1.2.1 <i>Public Budgeting Researches in Hong Kong</i>	3-4
1.2.2 <i>On-Hand Budgeting Theories</i>	5-12
1.2.3 <i>Neo-Institutional Approach</i>	13-18
<b>1.3 Conceptualization</b>	<b>19-27</b>
1.3.1 <i>Premises of the Explanatory Model</i>	19
1.3.2 <i>Rationale of the Model</i>	20-27
<b>1.4 Operationalization</b>	<b>28-36</b>
1.4.1 <i>Working Definitions</i>	28-29
1.4.2 <i>Operationalization of the Research</i>	29-32
1.4.3 <i>Indicators and Hypotheses</i>	32-34
1.4.4 <i>Methodology</i>	35-36
<b>1.5 Organization of the Research</b>	<b>37</b>
Notes	38-39
 <b>CHAPTER TWO: THE BACKGROUND</b>	 <b>40-69</b>
<b>2.1 Characteristics of the Colonial Public Finance System &amp; Macro-Economic Context for the Public Finance System</b>	<b>40-47</b>
2.1.1 <i>Revenue Aspect of the Public Finance System</i>	40-41
2.1.2 <i>Expenditure Aspect of the Public Finance System</i>	42-47
<b>2.2 Macro Economic Context for the Two Institutional Levels from the 1970s to the 1990s</b>	<b>48-53</b>
2.2.1 <i>Financially Non-Stringent &amp; Stringent Periods for the First Level Institutions</i>	48-50
2.2.2 <i>Non-Hostile &amp; Hostile Periods for the Second Level Institutions</i>	51-53
<b>2.3 Composition and Characteristics of the Actors in the Two Institutional Levels</b>	<b>54-59</b>
2.3.1 <i>Actors in the First Level Institutions and the Second Level Institutions</i>	54
2.3.2 <i>Superior Position of the Policy Actors / the Star Chamber over the Administrative Departments in Public Finance</i>	54-59
<b>2.4 Institutional Setting in the First Level Institutions and the Second Level Institutions</b>	<b>59-62</b>
2.4.1 <i>Institutional-Setting of the First Level Institutions</i>	59-61
2.4.2 <i>Institutional-Setting of the Second Level Institutions</i>	62
Notes	63-69



<b>CHAPTER THREE: ANALYSIS OF FIRST LEVEL INSTITUTIONS</b>	<b>70-84</b>
<b>3.1 Crown Land Leasing Manipulation</b>	<b>71-75</b>
3.1.1 <i>Official Depiction by the Policy Actors</i>	71-72
3.1.2 <i>Temporal Land Sale Patterns</i>	73-75
<b>3.2 Manipulation on the Operation of Colonial Taxation System</b>	<b>76-83</b>
3.2.1 <i>Adherence of How Tax Regime</i>	76-78
3.2.2 <i>Manipulation of the Content of Tax Reform by the Policy Actors</i>	79
3.2.3 <i>The Importance of Indirect Tax, Fees &amp; Charges and Fund Recovery in Government Revenue Extraction</i>	80-83
<i>Notes</i>	84
 <b>CHAPTER FOUR: ANALYSIS OF SECOND LEVEL INSTITUTIONS</b>	 <b>85-114</b>
<b>4.1 Budget Patterns of the Delivery Agency, the Regulatory Agency &amp; the Delivery / Trading Agency</b>	<b>87-96</b>
4.1.1 <i>Budget Patterns of the Delivery Agency – LD</i>	87-89
4.1.2 <i>Budget Patterns of the Regulatory Agencies – TDD and PD</i>	90-92
4.1.3 <i>Budget Patterns of the Delivery / Trading Agency – HA &amp; HD</i>	93-96
<b>4.2 Budget Patterns of the Taxing Agencies – FR, IRD, R&amp;V, TR and AD</b>	<b>97-102</b>
<b>4.3 Budget Patterns for the Transfer/Regulatory Agency, the Servicing Agency and the Trading Agency</b>	<b>103-112</b>
4.3.1 <i>Budget Patterns of the Regulatory / Transfer Agencies – PELB &amp; WB, TB and HB</i>	103-105
4.3.2 <i>Budget Patterns of the Servicing Agency – HRD</i>	106-107
4.3.3 <i>Budget Patterns of the Trading Agency – LDC</i>	108-112
<i>Notes</i>	113-114
 <b>Chapter Five: Conclusion &amp; Discussion</b>	 <b>115-120</b>
 <b>Appendices</b>	 <b>121-124</b>
I. <i>Profile of Interviewees</i>	121
II. <i>Interview Questions for the Land &amp; Housing Administrative Departments</i>	122
III. <i>Interview Questions for Finance Committee of the LegCo</i>	123
IV. <i>Interview Questions for the Housing Branch</i>	124
 <b>References</b>	 <b>125-145</b>
A. <i>Economy, Society and Politics of Hong Kong</i>	125-128
B. <i>Government Document and Interview Material</i>	129-132
C. <i>Local Budgetary Researches and Local Public Finance Material</i>	133-137
D. <i>Budgetary Theories and Neo-Institutionalism</i>	138-145

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# LIST OF TABLES & FIGURES

---

	<i>Page</i>
<b>Table 1.1</b> Budget Patterns for Different Types of Administrative Departments	26
<b>Table 1.2</b> Selected Administrative Departments for the Second Level Institutions Analysis	30
<b>Table 1.4</b> Weighting of Revenue Generated from Lands and Housing from 1970/71 to 1995/96	31
<b>Table 2.1.1</b> Relative Weighting of Direct Tax and Indirect Tax from 1947/48 to 1992/93	41
<b>Table 2.1.2A</b> Government Expenditure Growth Rate from 1970/71 to 1995/96	42
<b>Table 2.1.2B</b> Weighting of Social Services Expenditure Vs Total Government Expenditure from 1970/71 to 1995/96	43
<b>Table 2.1.2C</b> Key Stages of the Annual Budget Cycle of the Colonial Government	45-47
<b>Table 2.2.1A</b> Government Expenditure Growth Rate from 1973/74 to 1994/95	48
<b>Table 2.2.1B</b> Economic Context of the General Financially Non-Stringent Period 1973/74-1981/82	49
<b>Table 2.2.1C</b> Economic Context of the General Financially Stringent Period 1982/83-1994/95	50
<b>Table 2.3.2</b> Functional Roles of the Selected Administrative Departments in the Second Level Institutions	56-59
<b>Table 2.4.1A</b> Six Requirements of Tax System by Haddon-Cave	60
<b>Table 2.4.1B</b> Seven Principles / Seven Virtues for the Colonial Government Taxation System by Donald Tsang in 1995/96 Budget	60
<b>Table 3.1.2</b> Disposal of Crown Land from 1973/74 to 1994/95	73

	<i><u>Page</u></i>
<b>Table 3.2.3A</b> Choice of Public Sector Executive Agency and Price Strategy	<b>80-81</b>
<b>Table 3.2.3B</b> Consolidation of the Six Categories of Fees & Charges in the late 1970s	<b>81</b>
<b>Table 3.2.3C</b> Budgetary Guideline Ratios of Hong Kong	<b>83</b>
<b>Table 4</b> Projected CB Patterns for the Study Departments in the Second Level Institutions	<b>85</b>
<b>Table 4.1.1A</b> Annual CB Growth Rate of the LD from 1973/74 to 1994/95	<b>87</b>
<b>Table 4.1.1B</b> Average Annual CB Growth Rate of the LD in the Identified Non-Hostile and Hostile Periods	<b>88</b>
<b>Table 4.1.1C</b> Annual CB Growth Rate of the Department of Health from 1975/76 to 1993/94	<b>89</b>
<b>Table 4.1.2.1A</b> Annual CB Growth Rate of the TDD from 1973/74 to 1994/95	<b>90</b>
<b>Table 4.1.2.1B</b> Average Annual CB Growth Rate of the TDD in the Identified Non-Hostile and Hostile Periods	<b>90</b>
<b>Table 4.1.2.1C</b> Annual CB Growth Rate of the Marine Department from 1974/75 to 1993/94	<b>91</b>
<b>Table 4.1.2.2</b> Annual CB Growth Rate of the PD from 1989/90 to 1994/95	<b>92</b>
<b>Table 4.1.3A</b> Annual CB Growth Rate of the HA & HD from 1973/74 to 1994/95	<b>93</b>
<b>Table 4.1.3B</b> Average Annual CB Growth Rate of the HA & HD in the Identified Non-Hostile and Hostile Periods	<b>93</b>
<b>Table 4.1.3C</b> Annual CB Growth Rate of the Hospital Service Department (Newly Established Department) & the Hospital Authority (Delivery /Trading Agency)	<b>96</b>
<b>Table 4.2A</b> Annual CB Growth Rate of the FB from 1973/74 to 1994/95	<b>97</b>
<b>Table 4.2B</b> Annual CB Growth Rate of the IRD from 1973/74 to 1994/95	<b>98</b>



	<u>Page</u>
<b>Table 4.2C</b> Annual CB Growth Rate of the R&V from 1973/74 to 1994/95	98
<b>Table 4.2D</b> Annual CB Growth Rate of the TR from 1973/74 to 1994/95	99
<b>Table 4.2E</b> Annual CB Growth Rate of the AD from 1973/74 to 1994/95	99
<b>Table 4.2F</b> Average Annual CB Growth Rate of the Five Taxing Agencies in the Identified Non-Hostile and Hostile Periods	100
<b>Table 4.3.1A</b> Annual CB Growth Rate of the PELB & WB from 1973/74 to 1994/95	103
<b>Table 4.3.1B</b> Annual CB Growth Rate of the TB from 1973/74 to 1994/95	104
<b>Table 4.3.1C</b> Annual CB Growth Rate of the HB from 1973/74 to 1994/95	104
<b>Table 4.3.1D</b> Annual CB Growth Rate of the University Grant Committee from 1974/75 to 1993/94	105
<b>Table 4.3.2A</b> Annual CB Growth rate of the HRD from 1973/74 to 1994/95	106
<b>Table 4.3.2B</b> Average Annual CB Growth Rate of the HRD in the Identified Non-Hostile and Hostile Periods	107
<b>Table 4.3.3A</b> Annual CB Growth Rate for the LDC from 1987/88 to 1994/95	108
<b>Table 4.3.3B</b> List of Rehousing Sites and Sites for Market Sales	110
<b>Table 4.3.3C</b> Annual CB Growth Rate of Hong Kong Productivity Council from 1973/74 to 1993/94	112
<b>Figure A</b> Chart for the First Level Institutions – Policy Making Level	20
<b>Figure B</b> Chart for the Second Level Institutions – Administrative Level	23
<b>Figure C</b> Annual CB Growth Rate of the LDC from 1987/88 to 1994/95	108



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## LIST OF ABBREVIATION

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<b>AD</b> .....	Audit Department
<b>BD</b> .....	Building Department
<b>CB</b> .....	Core Budget
<b>FB</b> .....	Finance Branch
<b>HA</b> .....	Housing Authority
<b>HB</b> .....	Housing Branch
<b>HD</b> .....	Housing Department
<b>IRD</b> .....	Inland Revenue Department
<b>LD</b> .....	Lands Department
<b>LDC</b> .....	Land Development Corporation
<b>MNE</b> .....	Multi-National Enterprise
<b>Non-CB</b> .....	Non-Core Budget
<b>PADS</b> .....	Port and Airport Development Strategy
<b>PD</b> .....	Planning Department
<b>R&amp;V</b> .....	Rating and Valuation Department
<b>TDD</b> .....	Territorial Development Department
<b>TB</b> .....	Transport Branch
<b>TR</b> .....	Treasury Branch
<b>WB</b> .....	Works Branch

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# ABSTRACT

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This thesis studies the public budgeting politics of Hong Kong from the 1970s to the 1990s, using the domain of housing and land as a case study. It regards that the administrative procedures and institutional practices constituting the budgetary process are not only management techniques, but that they embody some fundamental values and political objectives of the colonial government. The public finance of the colonial government was grounded on the value of conservatism. Its political objective was to preserve the financial viability of the colonial state whose economic structure heavily relied on the commercial bourgeoisie.

Grounded on these understandings, this study adopts the historical institutional approach and the thesis of 'multi-level, interlinked institutions' to derive a general model of public budgeting of the colonial government in order to elucidate the concerned budgetary politics. The principal argument of the model is that the budgets of the colonial government from the 1970s to the 1990s were the outcome of the complex interaction of macro-structural context, institutional factors and bureaucratic interests. The budgetary process involves two levels of institutions, namely the policy making level and the administrative level, with the budgetary authority of the latter level being subordinated to the former one.

Analysis in the policy making level was operationalized by examining their revenue management strategies of the policy actors in the housing and land domain. The main hypothesis is that there is a strong negative correlation between the economic changes of the colony and the effort of the policy actors of the colonial government in preserving the 'conservative' approach of public finance.

Analysis in the administrative level was operationalized by examining the budget patterns of various administrative departments related to land and housing. The main hypothesis is that there is a strong negative correlation between the effort of the policy actors to preserve the conservative approach in public finance and the feasibility of budget increase (specifically on the “core budget”) of these departments.

These correlations establish the *prima facie* case for the validity of the general model of public finance described above. For the conservative approach of public finance of the policy actors was largely the product of the particular economic structure of the colony and was institutionalized in the budgetary process and behavior of the policy officials. The outcome of the departmental budgets was largely affected by the intensity of oversight of the policy making level, which in turn varied with the preservation effort of the policy actor. The concrete mechanism of interaction and negotiation among concerned officials will not be studied here, nor the effect of the changes in budgetary guidelines over the years. The study of these factors, while important in shaping budget patterns, requires accessibility of more restricted documents and insider information, both of which are beyond the scope of this thesis.

The preservation effort of the policy actors preliminarily explicates that the policy actors had the political objective of maintaining the financial viability of the colonial government and that such effort was largely induced by the value of conservatism. The budgetary patterns of the departments reflect the interests of departmental officials (at the administrative level), who formulate their budgets under the constraints of the institutionalized process and the behavior of officials at the policy making level.



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# 論文摘要

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這篇論文以港英政府公共財政中的房地產領域作為研究個案，從而探討香港七十至九十年代公共財政的政治性。此論文認定制定預算的程序和準則非純為行政技巧，然其中蘊涵着某些「價值」和「政治目標」。概括而言，港英政府的公共財政是被植根於「保守主義」的理念中；而其政治目標則在於它在依重中產商人的經濟結構之同時，保持其在財務上的穩健性。

建基於上朮之理解，此論文并合了「歷史建制學的方法」和「多層相連規範」這個概念建構了一供研究港英政府公共財政的概念模型，以闡釋當中的政治性。該概念模型旨於港英政府在七十至九十年代財政預算是「宏觀社經環境」、「建制性因素」和「公務員利益」三者的複雜互動的結果；其製作預算之過程則包涵着兩個建制層。它們分別是「政策制定層」和「政策執行層」；其中，「政策執行層」則從屬於「政策制定層」。

論文中「政策制定層」的分釋主要是探討「政策制定層」中的「政策制定群」怎樣管理港英政府從房地產領域得來的政府收入。該部份是假設香港經濟起跌與「政策制定群」在維持「保守式公共財政」的努力程度成反比。論文中「政策執行層」的分釋

主要是探討不同功能的政策執行部門的預算模式。該部份是假設「政策制定群」維持「保守式公共財政」的努力程度與各政策執行部門推增部門開支預算之可行性成反比。

結果，上朮兩項假設皆被發現是有效，由是此論文的概念模型得着初部引証，即港英政府的「保守式公共財政」乃香港獨有的經濟結構之使然，而此種「保守主義」則已建制化於其預算制定的過程中。另外，政策執行部門的預算模式於極大程度上是受着「政策制定層」對「政策執行層」的監控強度影響，而「政策制定層」對「政策執行層」的監控強度影響則與「政策制定群」維持「保守式公共財政」的努力程度互相關連。雖然負責公共財政的政府官員之具體制定預算機制和預算制定準則在研究時段之調節對論文研究的課題皆非常重要，但基於相關之資料的機密性和不可涉性，這兩個範疇也並未至於研究之列。

綜合以上各點，「政策制定群」的「保守式公共財政」初部論明了「政策制定群」保守港英政府財務穩健的政治目標；而政策執行部門的預算模式則初部反映出「政策執行層」各行政部門官員制定部門預算時有注下他們自身之利益。

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# CHAPTER ONE: INTRODUCTION

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## 1.1 SCOPE AND PURPOSE

Research on public budgeting in Hong Kong is generally underdeveloped. Some have only focused on technical and economic dimensions. Some simply take the argument of laissez-faire governing style of the colonial government as given without verification. (Lo, 1990; Tang, 1988 & 1992; Rabuska, 1973) The underdevelopment of the local budgetary research is partly related to the slow development of budgetary theories. The Wager's law is too grand to tell what exact forces are affecting budget decisions. Budgetary incrementalism overemphasizes the impact of institutional constraints in budget decision while the economic approach ignores institutional constraints, the limitation of human computation power as well as the administrative autonomy of bureaucrats.

The aim of this thesis is to explain the budgetary trends of the Hong Kong Government from the 1970s to the 1990s through case study of the housing and land domain. The study regards that the public budgeting of the colonial government is inherently political in that public budgets are not the result of budgetary administrative procedures, but the outcome of budgetary institutional practices that embody conservative value of the government bureaucrats. These 'conservative' institutional practices shape the public budgeting of Hong Kong to move on a 'conservative' direction. (Rubin, 1997; Mullard, 1993) Studying budgetary politics is important in sensitizing us to how the public money had been



used during the colonial period and avoids reducing budgeting to a technical matter.

The study will also integrate the historical institutional approach with the thesis of ‘multi-level, interlinked institutions’, to argue that the budgets of the colonial government were the outcome of the complex interaction of macro-structural contexts, institutional factors and bureaucratic interests. Two levels of institutions, namely, the policy-making level and the administrative level, will be studied. In the subsequent chapters, I shall show that as a result of the institutional dynamics, the fiscal policy adopted and thus public budgets made by the officials in the first level institutions were shaped by conservative values and institutional practices, while the senior bureaucrats in the second level institutions were driven by bureaucratic interests to push up their departmental budget.

Before I go into details of the study, I shall review some major literature in order to better illustrate the approach of my thesis.

## **1.2 LITERATURE REVIEW**

The literature review will be divided into two main parts, namely, public budgeting researches in Hong Kong and current development of budgeting theories.

### **1.2.1 PUBLIC BUDGETING RESEARCHES IN HONG KONG**

Public budgeting researches in Hong Kong can be divided into three groups. The first group focuses on the budgetary system of the British colonial government and its ideological context, such as the description of Miners (1995) provides a comprehensive annual government budgetary cycle. Similar demonstration can also be found in Cheung (1965) and Haddon-Cave (1980). They insist that the British colonial did highly adhere to the principle of 'positive non-interventionism'.<sup>1</sup>

More concrete demonstration of budget making principles could be found in Rabhuska (1976 & 1979) and Hsia & Chau (1978). They provide background information of budgetary system of the colonial government. Some of their works begin to take historic-political factors into consideration. For an instance, Tang illustrates how macro-political changes shape the so-called economic matters, like budgeting for government revenue. (Tang, 1989 & 1996)

The second group examines the socio-economic impact of particular budgetary issues in a particular period of time. Examples are scholarly comments of government annual budget in '*Hong Kong Economic Journal Monthly*' and in Wu's works. (1977; 1978; 1983) In general, all these analysis are narrow. Either they concentrate only on the impact of a particular budget item towards the socio-economy<sup>2</sup> or the philosophy of the financial secretary or

the Governor.<sup>3</sup> Wu's works deal with the documentary analysis of the public finance of Hong Kong from the post-WWII to the 1960s in socio-economic perspective. The greatest strength of Wu's works<sup>4</sup> lie in his detailed empirical analysis in expenditure or revenue aspects of Hong Kong's public finance. He also illustrates on the prioritization of economic developments of Hong Kong at the expense of the proclaimed taxation principle of equity by the colonial government. The major shortcoming of his work is the lack of concrete theoretical framework to explain the non-equity operation of the taxation system and the public expenses of the colonial government. In sum, his works does not sufficiently articulate the politics of budgeting and the longitudinal development of public budget in Hong Kong.

The last group mostly refers to the empirical study of public budgeting. It is represented by Lo's work (1990). In general, Lo's work (1990) is based on Aaron Wildavsky's thesis. She assumes that the colonial government adopted an incrementalist approach to budgeting without verification. She takes the pluralist assumption for granted. Also, she has not considered a number of factors, such as 'historic-specificity', budget nature, budget usage style, as well as the relationship between budgeting and policy substance. The negligence of these factors may fail to conduct a comprehensive analysis. More importantly, her findings of incremental government budget pattern may not mean the budget pattern of the colonial government is a result of incrementalism. Nevertheless her work has provided an insightful framework to consider the linkage between factors in macro-environment, meso-organizational level and micro-individual level.



### **1.2.2 ON-HAND BUDGETING THEORIES**

#### **(a) On-Hand Budgeting Theories in the Pre-War Era:**

At the end of the 19th century Budgetary theory was represented by Adolph Wager's Wagers law. He suggests that

“public expenditure would grow faster than the national economy. The law is really no more than a generalization. Its explanation, justification and cause are the pressure of social progress . . . the need of social services would increase in industrialization. Presumably Wager believed that the need for such services would increase with industrialization.” (Udehn, 1996, p. 195)

Unfortunately, the law does not state what factors will affect the budget pattern of government. (Goldsmith, 1995) Also, it is too vague to explain sectional government spending, like housing and education. In the 1940s, V. O. Key regards that there was a lack of budgetary theories in the pre-war era. By the time, most writers on budgeting merely focused on the economic aspect of public expenditure. (Key, 1992; Lehan, 1983; Musgrave and Musgrave, 1973; Wildavsky, 1992; OECD, 1995.)

#### **(b) Four Main Budgeting Theories in the Post-War Era**

Budgetary theories in the post-war era can generally be divided into three main branches. They are (i) budgetary incrementalism, (ii) public choice approach and (iii) neo-Marxist approach. I shall review them one by one in this section.

### **(i) Budgetary Incrementalism**

Budgetary incrementalism was a famous budgetary theory in the 1960s. (Leloup, 1983 & 1988) Influential scholars in this field are Aaron Wildavsky, Lindblom, Fenno Davies and Sharansky. (Leloup, 1983) For Lindblom,

“government decision making, successive limited comparison of policies is more feasible and rational than comprehensive analysis. Limited, non-comprehensive, incremental change, representing mutual adjustment of participant groups, is portrayed as the most common method of policy formulation. Muddling through is not only what is done, it is what should be done.” (Leloup, 1983, p. 62)

Wildavsky incorporated Lindblom's ideas to formulate a highly influential work from the incrementalist perspective. In his *'The Politics of Budgetary Process'* (1992a), incrementalism refers to both decision making process and the patterns of outcomes of the process. (Leloup, 1983, p. 63) This argument is built upon the pluralist model and assumes that “no individual maker or set of decision makers has sufficient wisdom and knowledge to take a comprehensive view.” (Brown, 1974, p. 10) Also, it denies the thesis of budget maximization by arguing that every segment of budget usage has its defenders. Policy-making, including budget-making decision, is only a continuation of the past with minimal modification. (Brown, 1974)

Incrementalism points out that there is no possibility of making a fully rational choice. Secondly, it recognizes institutional and political constraints as important variables in constraining bureaucrats to pursue utility-maximization successfully. (Udehn, 1996) Similar argument can also be found in *'Incrementalism and Public Policy'* by Hayes Michael. In short, it is essential to incorporate institutions as a variable in budgeting theories, so that we can have a

better chance to explain changes of budgetary outcomes and avoid the fallacy of reductionism (Leloup, 1983) As what Irene Rubin said

“Wildavsky’s model of budgetary decision making could not account for entitlement programmes, which, over time, took up an increasing proportion of the budget. Nor could incrementalism deal with or explain top-down budgeting that bypassed the department and bureaus . . . it could not deal with cutbacks because they made the definition of the base questionable . . . it treated the environment of budgeting as an exogenous variable, not part of the budget process. Most important incrementalism was based on a theory of human nature. Thus, it was argued that incrementalism hold at all times, in all places, and under all conditions. It did not allow for variation.” (1989, p. 78) [See Rubin (1988, pp. 1-18) for details]

and

“the incrementalist watched too small a part of the public budgeting process, and at times just looked at the outcomes and tried to figure out what the processes was that led to the outcomes . . . ” (Rubin, 1990, p. 6)

## **(ii) Public Choice Approach / Economic Approach in Bureaucracy**

The public choice approach is an economic approach to politics. (Self, 1993) It replaced the sociological theory and social psychology and become the dominant approach in social sciences during the late 1970s and the 1980s. (Monroe, 1991, pp. 2-3) Its being avoids much complexity in analysis in that study population is assumed to be homogeneously ‘utility-oriented’. (Almond, 1991; Monroe, 1991; Self, 1993)

Major early works were ‘*The Politics of Bureaucracy*’ by Gordon Tullock and Anthony Downs’s ‘*Inside Bureaucracy*’. The most popular sighted work is William A. Nickanen’s ‘*Bureaucracy and Representative Government*’ (1971). (Udehn, 1996; Schneider, 1989) According to Lynn (1991)<sup>5</sup>, public choice theorists assume:



1. "Budget-maximizing behaviour is a prediction derived from a model in which bureaucrats are assumed to maximize their utility within a specific institutional context." (Lynn, 1991, p. 60) Individuals are rational actors.
2. "utility is a function of income - salary and fringe benefits - and perquisites, a variable representing a wide variety of desirable end states: access to emoluments, a favourable reputation, power patronage, and the like. Both income and perquisites are postulated as being positive functions of the bureau's output and of its discretionary budget . . ."
3. "The utility-maximizing bureaucrat is transformed into a budget-maximizing bureaucrat by a set of specific institutional factor."
4. "The bureau is postulated as a monopoly supplier of a particular output and is assumed to exchange a total amount for a total budget from its sponsor, a legislative body assumed to be a monopolist ."
5. "The availability of information is assumed to be asymmetrical: only the bureaucrats has a accurate information on the minimum cost at which a given output can be produced . . ."

Public choice theorists generally argue that budget-maximizing bureaucrat would cause over-supply of public service. Hood and Dunsire's *Bureaumerics: The Quantitative Comparison of British Central Government Agencies* (1981) and *Cutback Management in Public Bureaucracies* (1989) are the examples. Another typically cited example is Niskanen's work (1971). He argues that a government department

" . . . is run by a senior official whose job includes deciding the budget for the department. The budget thus becomes the private good of that senior civil servants in each department who all, despite hierarchical structures have a hand in preparing budgetary claims . . . pursuing self-interest may not always lead to budget-maximization. Indeed civil servants may gain approbation through cutting budgets. (Dowding, 1995, p. 61)

In short, research in this approach derives simple economic models of political institution to predict the bureaucrat's behaviour and to offer economic-based explanations to all the patterns probed. (Dowding, 1995) Public choice approach offers formal theories in terms of simple hypothesis, consistent rationale of explanation and prediction. As what Johnson (1991) said that:

“the most widely recognized advantage of the rational actor approach possesses over rival approaches to social explanation is the great elegance and simplicity of theoretical formulation it allows. Building upon a few new simple assumptions to generate sophisticated models with very interesting implications for our understanding of human action.” (Johnson, 1991, p. 105)

Empirical critique on this approach began to exist in the late 1970s and the 1980s. At that time, scholars started to introduce norms, culture and institutions into budgetary analysis. However, their analyses were still neo-classical economics based. (Monroe, 1991) It consequently made them suffer from the problem of weak explanatory power on the changes of bureau behaviour or public budgeting over time. In short, their analyses had ignored the possibility of altruistic behaviour and the difference in individual goals. (Mansbridge, 1995; Rosenberg, 1995; Rothstein, 1995) In fact,

“there is no necessary connection between budget-maximization and self-interest; hence no very good reason to assume that bureaucrats, even if they are self-interested, would generally try to maximize the budget of their bureaus.” (Udehn, 1996, p. 75).

Other criticisms on this approach come from institutional economics theorists. They emphasize on ‘bounded rationality’<sup>6</sup> and the satisfying behaviour of individual. (Howard, 1983; March, 1982; Monroe, 1991, p. 3; Simon, 1985 & 1995) Also, structural constraints, institutional position of bureaus, incomplete information, uncertainty and risks should be taken into account in budgetary



analysis. (Eckstein, 1991; Forrester, 1989 & 1989a; Howard, 1983, p. 105; Lehan, 1983; Monroe, 1991; Williamson, 1985)

In sum, the public choice approach in the strong rational choice tradition does not consider institutional factors. Thus, the economic approach is methodologically individualist. (Udehn, 1996) Its fallacy lies in the fact that the “sociological man is never in an island, but always a party in social relations . . .”. Also, the political men may not be selfish creatures. In addition, institutional variables of government bureaucracy and the social context of a given government should be considered in budgetary analysis.

### **(iii) Neo-Marxist Approach**

“Neo-Marxist interest centres . . . on the transition within the capitalist mode of production from early ‘competitive’ capitalism to advanced ‘monopoly’ capitalism.” (Skocpol & Amenta, 1986, p. 134)

The neo-Marxist basically argues that the state tends to favour the interest of the capitalists. Such kind of class interest discrimination reflects in the budgetary allocation of collective consumption. (mode of budget usage) This inequality may stimulate social unrest or even social movements. The legitimacy of the state will be hampered eventually. Then the state will try to ease the tension by sacrificing the capitalist interest shortly. However, the state will still tend to favour the capitalist interest in the long run or to search a middle way to pertain the interest of the state and the capitalist simultaneously. (Castells, 1978 & 1978; Jessop, 1990; Li, 1995; Lui & Kung, 1985; Skocpol, 1993; Skocpol and Amenta, 1985) In other words, the state sometimes enjoys relative autonomy in policy making or in some areas of policy making. The extent of relative

autonomy of the state should be depended on its extent of reliance towards the capitalist. In short, the neo-Marxist approach provides insights on what the macro-socio-economic-political structural environment that capitalist countries are facing. Borrowing Hall's words, "[neo-Marxist] move towards more complete consideration of state-society relations." (Hall, 1986, p. 17) However, this approach does not provide the underpinning rationale for why the state tends to favour the capitalist. According to Hall (1986), this rationale seems highly likely refer to neo-institutionalism and the state seems to be induced by these institutions to favour the capitalist. These institutions are emerged from the socio-economic and political environment of a given state.

#### **(iv) Integrating Macro-budgeting and Micro-budgeting**

This approach argues that study of national budgeting should harmonize macroscopic budgeting and microscopic-budgeting. For Schick, national budgetary research should articulate that national budgeting related to different levels of government. The different levels of government are interlinked to each other. Their budgeting are subjected to the impact of their particular macro-environment. These understandings concretely uncover the actual operation of national budgeting. (Schick, 1986 & 1988 & 1988a)

In sum, insights from the review are as follows:

- ◆ from incrementalism:  
the 'politics' of budgeting should emphasize the importance of institutional constraints and institutional dynamics should not be assumed away as a 'black box'.
- ◆ from the public choice approach:  
the fallacy of methodological individualism could be avoided by understanding individual goals and preferences are shaped by institutions.
- ◆ from the neo-Marxist theory:  
the macro-sociostructural factors should be recognized as a force to necessitate the being of interest and behaviour of individuals / groups / organizations.
- ◆ from Schick's thesis:  
national budgeting should not be understood as a homogeneous entity, but composing of different levels of government. These levels were intricately related to each other.

In other words, budgetary research should pay attention to institutional factors and should articulate the thesis of multi-level of government into analysis. Re-approaching institutions is a viable way to explore the politics of budgeting. It was a popular trend in social science in the 1980s, otherwise known as neo-institutionalism. (Bates, 1988; March and Olsen, 1984 & 1989)



### **1.2.3 NEO-INSTITUTIONAL APPROACH<sup>7</sup>**

There are three main streams of neo-institutionalism, namely economic institutionalism (hereafter called Institutional Rational Choice Theory), Sociological Institutionalism and Historical Institutionalism. Minor streams include Institution Grammar and Multi-layered Approach. I shall review these five streams.

#### **(a) Institutional Rational Choice Theory**

Institutional rational choice theory<sup>8</sup> is proposed by Coase and is taken up by Williamson and Douglass North. According to North (1993), institutions are rules of game (formal and informal rule) which are created by humans to constrain or to shape the behaviour of individuals. Institution serves as an incentive system of human interactions.

Delimiting to the discipline of politics, institutional rational choice supporters treat polity as a market while political struggles as market transactions. These supporters also argue that an efficient political transaction is facilitated by appropriate institutional choice(s) and hence the utility maximization of political transaction. In short, institutional rational choice theory still roots in the tradition of neo-classical economics. They ignores how individual's interests and preferences are constituted by institutions. It consequently makes them suffer from the fallacies of reductionism and instrumentalism. However, it reminds us the importance of the shaping capacity of institutions and the limitation of human computation capacity.



## **(b) Sociological Institutionalism**

Sociological institutionalism characterizes by John Meyer's works.<sup>9</sup> (Powell and DiMaggio, 1991) For the sociological institutionalists, institutions "are dependent on larger macro-level variable such as society and culture." (Koelble, 1995, p. 232) The macro-level variable is termed as wider environment. The wider environment is an evolving set of rationalized patterns or cultural schemes. It will finally structure the individual's behaviour in a given environment. (Meyer, 1994) Individuals are not self-interested utility-maximizers in a pre-institutional and pre-cultural sense. Rather, individuals are embedded in a dense web of social, economic and political relations beyond their control and cognition whereby their actions are determined and are created by social and cultural factors. (Koelble, 1995; Rothstein, 1996) Moreover, sociological institutionalists highly emphasize the inheritance and persistence nature of institutions. These institutions will consequently structure the behaviour of people living within a given organization. Methodologically, they emphasize longitudinal analysis in institutional researches.

In short, sociological institutionalists highlight the importance of social context in understanding individual's actions and its emphasis of longitudinal analysis help us to explicate the historic-specificity and inter-temporal dynamics of institutional changes. (Powell and DiMaggio, 1991, p. 10) However, they fall short in explaining why agents in the same institutional settings adopt different kinds of action and the role of influential individuals in shaping the norms and culture of the organization. (DiMaggio, 1988; Dunleavy, 1986 & 1991; Forrester, 1989 & 1989a; Rothstein, 1996)

### **(c) Historical Institutionalism:**

Historical institutionalists interest in the dynamics of interest, ideas, institutions and macro structures. One of their typical research fields is the analysis of policy-making and politics of a given state. Peter Hall represents this research domain. (Thelen and Steinmo, 1992). Following the emphasis of this dissertation, I shall also focus on this research domain to introduce this stream. Before that, its main characteristics are discussed.

The main characteristics of historical institutionalism are as follows:

1. There should be no distinction between structure and institutions for historical institutionalists. (Cammack, 1992) They generally define institutions in Peter Hall's version and which is:  
  
    "the formal or informal procedures, routines, norms and conventions embedded in an organizational structure of the polity or political economy. They can range from the rules of constitutional order or the standard operating procedures of a bureaucracy to the conventions governing trade union behaviour or bank-firm relations. In general historical institutionalists associate institutions with organizations and the rules or conventions promulgated by formal organizations." (Hall and Taylor, 1996, p. 938)
2. Institutions can not be assumed simply as something that is intentionally derived in facilitating the purpose of utility maximization.
3. Institutions can only be identified from a particular history of a given state for which were added up from a particular historical set-up and socio-economic developments of the state. (Koelble, 1995)
4. Institutions can only induce preferences and could only shape the behaviour of individuals / groups / organizations, rather than determining them. (Hall, 1986) Thus, the individuals / groups / organizations only acquires with bounded rationality and limited computational capacity.
5. Institutions are not a causal force, but are located at a causal chain that accommodated and mediated other forces, notably the socio-economic change and diffusion of ideas / values and finally necessitating the being of a social phenomenon. (Hall and Taylor, 1996)



It is to say that upturn and downturn of the socioeconomic developments and / or burgeoning and dissipating of the ideas and values induce related individuals or groups to react on. Their responses will always be widely advocated by their belonged organizations. These advocating behaviour will most likely bring their responses from occasional reaction(s) into widely respected rules / institutions of their organizations. These rules / institutions may take forms of ideas or in the form of formal written rules and principles. The wide acceptance of the institutions induces related individuals / groups / organizations to follow them. These widely accepted institutions shape their behaviour in the related area(s) of decision making eventually. (Halls and Taylor, 1996) In short, adjusting institutions is generally the last resort in catering for the socio-economic fluctuations. (Cammack, 1992; Hall, 1986; Thompson, 1987; Thelen and Steinmo, 1992)

Focusing on the area of policymaking and politics, the relational character of neo-institutionalism implicitly tells us that the behaviour of policy-making individuals or group(s) in government institutions of a given state is shaped by institutions. The policy-making individuals can only acquire relative autonomy of policy decision making. These institutions are added up from the particular socio-economic setup in a given historical setting of a given state. (Thelen and Steinmo, 1992; Thompson, 1987)

The being of these institutions can somehow be illuminated by the concept of contingency necessity<sup>10</sup> in a sense that catering tactics of a given policy making group in various social phenomena will contingently necessitate the establishment of institutions. It is because these responses will very likely be advocated by the policy making group. Their advocacy will make the tactics be widely accepted by the state and finally transform into institutions. These institutions may even be institutionalized into formal statements in shaping how the policy making group in handling the related policy. (Hall and Taylor, 1996)



Regarding these institutions are widely accepted by the state in general, deviating from them will generally steer up strong resistance from the state. Thus, the policy making group will highly probably follow these institutions even sometimes their embedded context is unfavourable for it to uphold those established institutions, notably economic downturns and financial crisis. The institutions upholding behaviour can be summarized as 'rule following behaviour'.

The rule following behaviour then make them to have limited arenas of maneuver when the state is suffering from some kinds of problems, like financial crisis. As a result, the policy making group will tend to adjust the non-institutions constrained areas to tackle the concerned problems rather than adjusting the established institutions. Adjusting the established institutions is usually the last resort to solve the problems. (Hall & Taylor, 1996) The resistance of adjusting the established institutions suggests that the administration rationale of the policy making group is to avoid trouble or opposition. Such kind of administration rationale can be interpreted as rationality of trouble avoidance. (Weaver, 1990)

#### **(iv) Others - Grammar of Institutions**

This stream does not argue whether institutions should be embodied both formal rules and informal rules. Rather, it only uses a board term institutional statement<sup>11</sup>. Under this approach, institution grammar and syntax are derived to analyze the statement to see whether these individuals in a group also share the same understanding of these statements empirically. Qualitative research method is suggested to capture what and how institutional statements are used.

The general syntax contains four components: attributes, denotic, aim and conditions. (Crawford and Ostrom, 1995)

In short, this approach reminds us the importance of social context in institutional analysis. Its main weaknesses are overemphasizing on linguistic analysis and ignoring the contingency of social phenomenon.

#### **(iv) Others: Multi-Level, Interlinked Institutional Approach**

Referring to Kuan (1993), institutions are rules, regulations, principles and operation procedures that could shape the behaviour of people. Also, not all the rules are institutions, but those are respected and are followed by the general public. A given macro-socioeconomic and / or political phenomenon should compose of a number of levels. Different levels of the phenomenon are affected by different institutional settings. The institutions among different levels of the phenomenon are intricately interlinked to each other. Some of these institutions are more prominent than the others while some are affiliated to the others.

As what Kuan has argued, the political order of Hong Kong at least composes of two levels of institutions. The first level should be the relationship between the sovereign state and Hong Kong while the second level should be various domestic powers and the colonial government. The second level is affiliated to the first one. Concrete content of these institutions, how these institutions are matter in a given macro-phenomenon, the relation of the different institutions between different levels of a given phenomenon can be identified from the particular socio-economy and the political context of Hong Kong.

## **1.3 CONCEPTUALIZATION**

With the above understandings of budgetary theories, a general model that incorporates the historical institutional approach and the thesis of multi-level interlinked institutions is derived in order to explore the budgetary politics of the colony. I shall introduce the model.

### **1.3.1 PREMISES OF THE EXPLANATORY MODEL**

1. Public budgeting in the colonial government involves two interlinked levels of institutions, namely the policy making level and the administrative level. Hereafter they are respectively called the first level institutions and the second level institutions.
2. For the first level institutions, the macro-structure is the economic context, which gives rise to the economic and fiscal policies that constitute the institutional setting of budgeting. The actors of the first level institutions are the senior bureaucrats, mostly administrative officers, of the policy branches.
3. For the second level institutions, the macro-structure is the policy directions of the first level institutions, which gives rise to formal budgetary guidelines for administrative departments. The actors of the second level institutions are the senior bureaucrats, mostly departmental grade officers, of the respective departments.



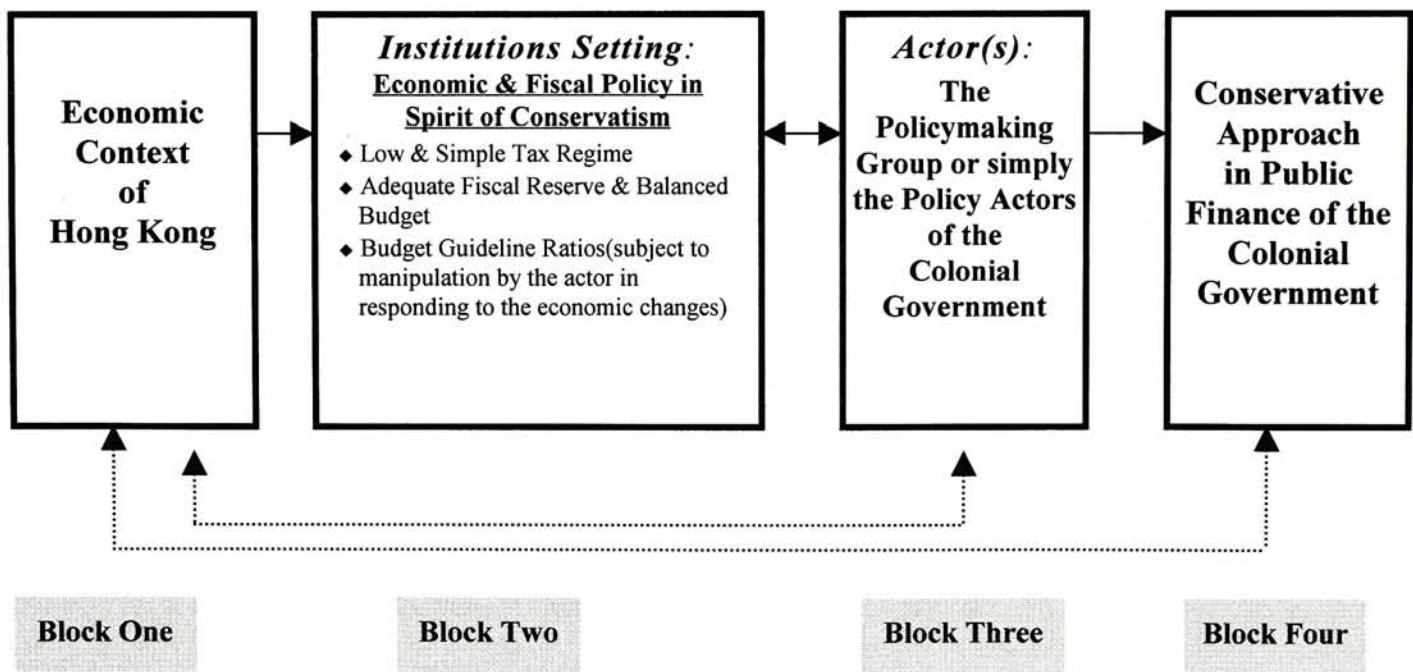
1.3.2 RATIONALE OF THE MODEL

(a) First Level Institutions

The ‘conservative’ approach in public finance was first initiated by the policy making group (hereafter called policy actors) of the colonial government and established as historical institutions that were followed by the policy-makers for a prolonged period of time. The initiation action of the policy actors is inherently driven by the administrative rationale of trouble avoiding and is enabled by its relative autonomy in the administration of public budget.

In what follows, I shall introduce the rationale of the first level institutions by means of Figure A.

FIGURE A: CHART FOR THE FIRST LEVEL INSTITUTIONS – THE POLICY MAKING LEVEL



The actors of the first level institutions are the policy actors of the colonial government (Block Three). Operationally, they include the Governor and the policy secretaries or since the 1980s the Star Chamber. The budgets and the financial guidelines of Hong Kong were made by them.

The inherent or entrenched economic and fiscal policies of the colonial government constitute the institutional setting for the policy actors. It comprises low tax rate, high fiscal reserves and the positive non-interventionist approach to the economy. (Block Two)

The institutional practices emerged from the broader economic context of the colony. Chan (1991) and Chiu (1994) show us that natural resources insufficiency of Hong Kong and the self-sufficient public finance principle of the British colonial government necessitated the financial dependency of the colonial government over the 'hongs' and, later on the Chinese merchants at the very beginning of the colonial history. This dependency consequently induced the colonial government to derive conservative budget principles or tactics to cope with its financial needs. These tactics were advocated and were formally institutionalized into rules by the colonial government. (Historical origin will further be elaborated in section 2.3)

These conservative budget-making rules were followed by the policy actors from the 1970s to the 1990s. In the 1990s, they were articulated as the 'Seven Principles' or the 'Seven Virtues' of taxation system for the colonial government. The adherence to the conservative rules led to the persistence of the conservative budgetary policy. (Block Four)

The rule following behaviour of the policy actors led them to follow and to preserve these conservative public finance budget principles even when the economic context was unfavourable, i.e. during periods of financial stringency. The rule-following behaviour was enabled by the relative autonomy of the actors in administering the public budgets. It was also motivated by the desire for

trouble avoidance. Trouble avoidance refers to the avoidance of potential or actual opposition of the vested interests, especially the merchant groups who were the beneficiaries of the conservative public budget policy. Also, it refers to the motivation of the policy actors to avoid the additional administration cost to change the ongoing public finance policies, such as having to appeal to the public to accept the alternation of the ongoing public budget operation.

The rule following behaviour of the policy actors subjected to the colonial government to financial stringency whenever the colony was in economic downturns. Hence the limited arenas of the taxation regime that were not defined by conservative public finance principles provided rooms for manipulation. These arenas are the non-recurrent revenue and expenses of administrative departments. (Expenses of administrative departments will be elaborated in the paragraphs for the second level institutions.)

Like many Anglo-American countries, the manipulation of the taxation regime operates through reinstitutionalization<sup>12</sup> and / or privatization<sup>13</sup> (hereafter called 'two ions'). The trouble avoidance behaviour the policy actors would induce them to pursue the 'two ions' in a obfuscated mode, such as making relevant information difficult to be accessed by possible opponents. As a result, the policy actors could get these 'two ions' through with lesser actual or potential oppositions. Due to the colonial setting, the policy actors could also manipulate the amount of land-dale due to their monopolized ownership of land.



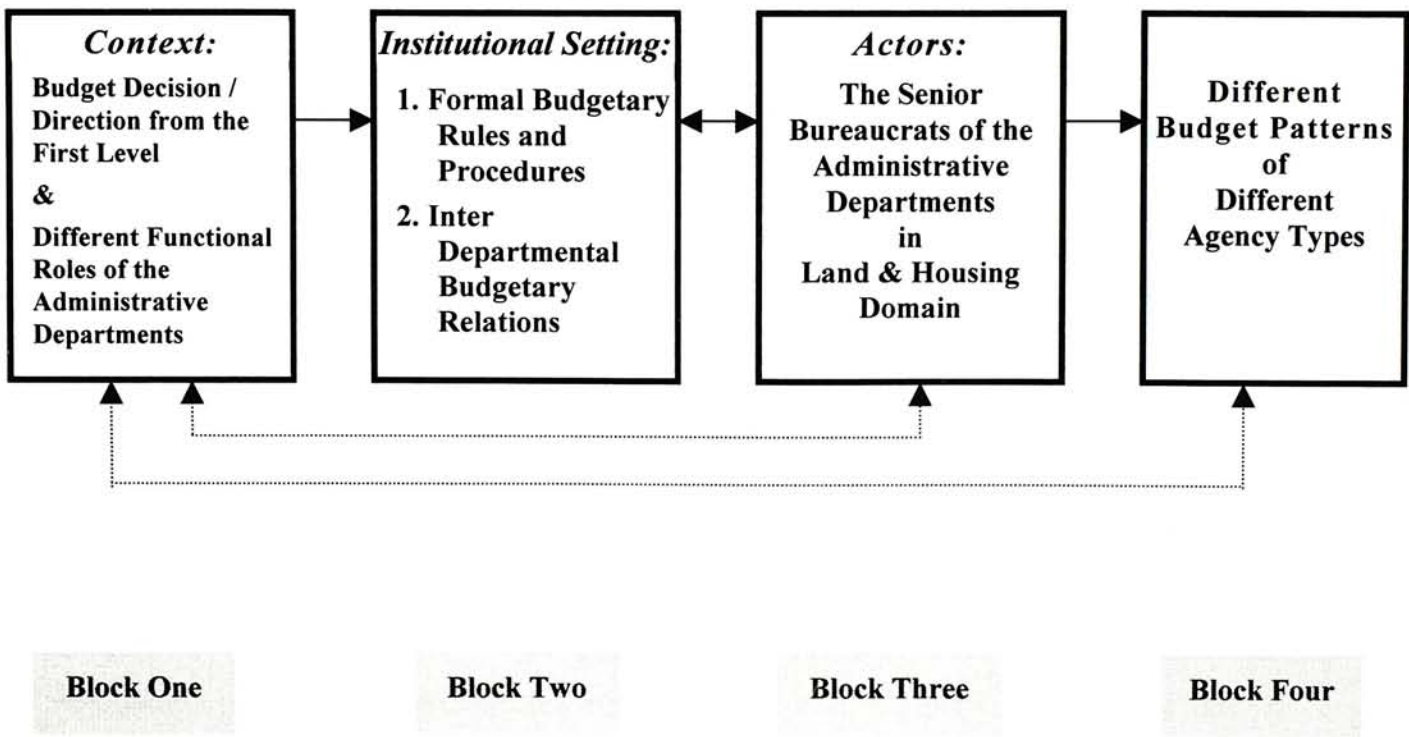
The strategic response of the policy actors during financial stringency implicates that the policy makers are actors in reproducing the economic context and conservative fiscal policy of the colonial government.

**(b) Second Level Institutions**

The main thesis of the second level institutions is that the different patterns of budgetary changes of different administrative agency types are partly caused by the strategy of the policy actors when dealing with economic upturns and downturns, namely through manipulating land supply and indirect tax.

In what follows, I shall introduce then rationale of the second level institutions by means of Figure B.

**Figure B    Chart for the Second Level Institutions – The Administrative Level**



The actors in the second level institutions are the senior bureaucrats of the 'land and housing' administrative departments (i.e. the bureaucrats in the director grade or above) (Block Two). These administrative actors are also oriented toward trouble avoidance. They did so by pushing up (or maximizing) the department budget segment that would benefit their own department most, i.e. expenditure that spent directly by their departments as running cost. They did so for security purpose, notably to allow for accidental over-spending.<sup>14</sup> In Dunleavy's term (1991), this budget segment is called the 'Core Budget' (hereafter called the CB) while the remaining segment of departmental budget is called the 'Non-core Budget' (hereafter called the Non-CB).

Given the hierarchical relationship between policy branches and administrative departments, these administrative actors were bounded by the budgetary decisions and directions of the policy actors and their designated administration role in operating their department budget. (Block One) The administrative level was institutionally made to implement the policy decisions of the first level institutions'. (Schneider and Tacoby, 1996) In this context, these administrative actors were not freely to push up the department CB as they were made to follow specific budget making procedures and rules in preparing the department budget<sup>15</sup>. These rules and procedures were derived by the policy actors who could adjust them according to how they adjusted their public finance. The administrative actors were also subjected to 'inter-departmental budgetary relations' in that the amount of budget usage of a department depended on the service request from other departments. These budgetary rules and procedures are the first type of institutions while the inter-departmental budgetary relations are the second type of institutions. (Block Three)

In the actual operation of the colonial government, the policy actors increases its budget oversight unto the administrative departments in times of financial stringency, while 'inter-department budgetary relations' for some departments is very low. As a result, administrative actors had sufficient relative autonomy to push up the CB.

Adopting the argument of the bureau-shaping model by Dunleavy (1991), departments with low inter-departmental budgetary relations are those of high CB portion out of the total department budget. In general the lower the constraining effect of the inter-departmental institutions, the greater the relative budgeting autonomy for the senior bureaucrats of these departments to manipulate their department budget would be and hence the feasibility to push up CB.

Since the land and housing departments of the colonial government are not homogeneous in nature, they should be subjected to different budget constraining intensity of the 'inter-departmental budgetary institutions'. As a result, different types of administrative departments would have different CB growth patterns once the policy actors did not increase its oversight unto them. The period of weak financial oversight from the policy actors on the second level institutions is known as the non-hostile budget making period (hereafter called non-hostile period).



Adopting Dunleavy's 'bureau-shaping model', the projected CB pattern of different types of administrative departments / or agency types in the 'non-hostile period' are summarized in Table 1.1.

<b>Table 1.1 Budget Patterns for Different Types of Administrative Departments</b>			
<b>Agency Type</b>	<b>Functional Roles &amp; CB Portion</b>	<b>Inter-Departmental Budgetary Relation</b>	<b>Prescribed Budget Patterns</b>
Delivery	<ul style="list-style-type: none"> <li>made responsible for producing goods and services directly to society</li> <li>high CB portion because its budget is mainly spent on the production cost of the goods and services concerned</li> </ul>	Low	progressive CB growth
Regulatory	<ul style="list-style-type: none"> <li>made responsible for supervising the behaviour of individuals, firms by rules, standards or licensing</li> <li>high CB portion because its budget is mainly spent on personal emoluments</li> </ul>	low	progressive CB growth
Transfer	<ul style="list-style-type: none"> <li>made responsible for passing moneys to individuals, firms or organizations.</li> <li>low CB portion because the majority portion of its budget has been transferred and the demand on personal emolument is very low</li> </ul>	high	Constant
Taxing	<ul style="list-style-type: none"> <li>made responsible for administering and collecting of government expenses and revenue.</li> <li>high CB portion for most of the budget has been used for the handling of the government revenue and expenditure.</li> </ul>	lowest	progressive CB growth
Trading	<ul style="list-style-type: none"> <li>made responsible for providing services to public or private sector directly</li> <li>free from the impact of first level institutions since it is operating in commercial principles</li> <li>budget pattern depends on its specific situation</li> </ul>	N/A	fluctuated pattern
Servicing	<ul style="list-style-type: none"> <li>made responsible for providing services to other government bureaus</li> <li>CB portion depends on the demand from the government departments</li> <li>budget patterns depends on the demand from its client-bureau</li> </ul>	N/A	fluctuated pattern
Source:	Dunleavy (1986; 1989; 1991)		
Note:	N/A: Non-applicable		

Once the policy actors increases its financial oversight towards the second level institutions during financial stringency, the relative CB push-up autonomy of the senior bureaucrats in the second level institutions would be substantially discounted. As a result, the downward CB development in the second level institutions came into being. The increase in oversight from the policy actors of the first level institutions over the second level institutions is known as the hostile budget making period (hereafter called hostile period).

However, variations will be found amongst different agency types. Agencies that were made responsible for monitoring the use of money would be subjected to a smaller impact of downward CB development pressure as they played a highly important role in government revenue collection. Some agency types may even be exempted from the CB downward pressure, like the Trading agency, the Servicing agencies and the Transfer agencies. The partially privatized nature of the trading agency make it not to be subjected to the budget constraining pressure of the two types of institutions, but the impact of its market environment. With an understanding of different bureaucracy sectors and different agencies may be subjected to different intensity of CB push-up hostility, the wide spectrum of client departments of the servicing agency blur the CB downward growth of the servicing agency. The exception in transfer agency is driven by the low CB portion of transfer agency itself in that its low CB portion have made the rooms that are left for tightening are too small and therefore distorted the happening of large scale budget cut-back.



## **1.4 OPERATIONALIZATION**

### **1.4.1 WORKING DEFINITION(S)**

#### **(a) Reinstitutionalization**

Reinstitutionalization in Hong Kong refers to the running down of the activities of one or more established government departments and to the reallocation of resources to alternative agencies to take up the concerned activities so as to save the government expenses in the activities in the long run. (Dunleavy, 1991)

#### **(b) Privatization**

Privatization in Hong Kong refers to the gradual diminishing of the colonial government public services provisions by shifting the responsibility to the private sector. The government could maintain certain control by providing the policy directions, planning and supervision.

#### **(c) Sectors and Types of Agency of Hong Kong Government**

Categorization of the types of agency and sectors in the Hong Kong bureaucracy is based on '*The Estimates*'. It provides detailed job description of each Hong Kong government department. As the department performs more than one type of function(s), it will be categorized by its more dominant function. Some public agencies also need to be embodied as part of the government. (Ho, 1972, pp. 18-19) HA and the LDC are notable examples in the land and housing domain.

#### **(d) Calculation of Budget**

Budget calculation of different administrative departments is based on the two financial documents of the colonial government, namely '*The Estimates*' and '*The Annual Report of the Director of Accounting Services and the Account of Hong Kong*'. They provide detailed expenditure breakdown and related information for all governmental agencies or departments. The expenditure items of 'Pensions' and 'Miscellaneous' will be left out in the calculation because they cannot be categorized effectively within the classification of budget types of the model. The item 'Pensions' is an account item that applies to all types of agency, so leaving it out will not cause any bias towards the research. The item of 'Miscellaneous' is a very small portion among the total



amount of Hong Kong Government expenditure and has little effect on the present study.

**(e) Types of Budget**

CB refers to the expenditures spent by agencies for their own operation. (Dunleavy, 1991) In this study, the CB is the summation of the following expenditure items: (1) 'personal emoluments', (2) 'personal related expenses', (3) 'departmental expenses', (4) 'other charges', (5) 'plant, equipment and works' and (6) 'recoverable salaries and allowances'. Non-CB refers to the total expenditure of a bureau minus the amount of CB.

To caution against double accounting and miscalculation many fees and receipts will not be treated as government expenditure. Payments from the private sector to the government on a quid pro quo basis represent consumption expenditure of the private sector. Also, various 'funds', like trading fund and development fund will be added back as part of government expenditure. (Ho, 1972, pp. 18-19)

#### **1.4.2 OPERATIONALIZATION OF THE RESEARCH**

**(a) Study Period**

The study period is from the 1970s to the 1990s. This period witnessed profound political and economic development of Hong Kong: changes in colonial government structure, the development of a representative government, as well as the adjustment of collective consumption provision mode.<sup>16</sup> Therefore, it should help to demonstrate whether the two operational foci of this study had really happened in the past two decades

(b) Study Domain

The study domain of this study is ‘land & housing’. It is operationalized as crown land sales, indirect tax, fees & charges<sup>17</sup> for the first level institutions and expenses in the provision of public housing and urban renewal for the second level institutions. Selected administrative departments for the analysis of the second level institutions are summarized in Table 1.2.

TABLE 1.2 SELECTED ADMINISTRATIVE DEPARTMENTS FOR THE SECOND LEVEL INSTITUTIONS ANALYSIS			
Agency Type	Selected Departments	Agency Type	Selected Departments
<i>Delivery Agency</i>	LD	<i>Taxing Agency</i>	FB IRD
<i>Regulatory Agency</i> <sup>#</sup>	TDD PD		R&V TR AD
<i>Delivery/ Trading Agency</i> <sup>*</sup>	HA & HD	<i>Transfer / Regulatory Agency</i> <sup>**</sup>	PELB & WB TB HB
<i>Trading Agency</i>	LDC	<i>Servicing Agency</i>	HGD
Notes:			
# The HA and the HD is grouped as ‘delivery / trading’ agency because it is a partially privatized public corporation. Since that the HA and the HD is supposed to possess both characteristics of the delivery agency and trading agency.			
* The PELB & WB, the TB and the HB have been contextually found to possess both the characteristics of ‘transfer’ and ‘regulatory’ agencies. However, the PELB & WB, and the TB had been made to acquire a stronger planning role since the mid-1980s. Thus, they were subjected to a relative lower CB downward pressure by the time. (See section 2.4 for details.)			
** The TDD and the PD had also been made to have a stronger planning role since the mid-1980s than the BD. Thus, the TDD and the PD were subjected to a relative lower CB downward pressure than the BD by the time. (See section 2.4 for details.)			

Land and housing is selected as the study domain due to the prominent weighting amongst the total government revenue. As shown in Table 1.3, it contributed for no less than 20.3% of total government revenue from 1971/72 to 1995/96.



**Table 1.4 Weighting of Revenue Generated from Lands and Housing  
from 1970/71 to 1995/96**

<i>Financial Year</i>	<i>Land &amp; Housing (a)</i>	<i>Total Revenue of the Year (b)</i>	<i>Relative % (a/b)</i>	<i>Financial Year</i>	<i>Land &amp; Housing (a)</i>	<i>Total Revenue of the Year (b)</i>	<i>Relative % (a/b)</i>
<i>HK \$ Million</i>				<i>HK \$ Million</i>			
1971/1972	1014.2	3541.3	28.6	1983/1984	6662.7	30339.7	22.0
1972/1973	1806.3	4936.3	36.6	1984/1985	8041.5	36342.5	22.1
1973/1974	1360.1	5240.8	26.0	1985/1986	7572.7	41214.0	18.4
1974/1975	1346.7	5875.3	22.9	1986/1987	3994.4	43869.6	9.1
1975/1976	1502.8	6519.5	23.1	1987/1988	4354.6	55641.4	7.8
1976/1977	1734.1	7943.5	21.8	1988/1989	7452.6	65780.7	11.3
1977/1978	3227.4	10232.3	31.5	1989/1990	9549.5	74365.2	12.8
1978/1979	3848.3	12557.0	30.6	1990/1991	5061.7	89523.8	5.7
1979/1980	5567.2	16796.1	33.1	1991/1992	6127.6	114699.9	5.3
1980/1981	14139.8	30290.3	46.7	1992/1993	7298.3	135310.9	5.4
1981/1982	14405.1	34312.9	42.0	1993/1994	8130.5	166602.2	4.9
1982/1983	9467.1	31097.6	30.4	1994/1995	8500.5	174998.4	4.9
				1995/1996	9492.1	180045.1	5.3

**Average Relative % (a/b) from 1971/72 to 1995/96 = 20.3**

**Sources:**

1. Census and Statistics Department, Hong Kong Government. 1981, 1990, & 1996. *Hong Kong Annual Digest of Statistics*. Hong Kong: Census and Statistics Department, Hong Kong Government.
2. Treasury of Hong Kong Government. 1970-1996. *Accounts of Hong Kong and Annual Report of Accountant General*. Hong Kong: Treasury of Hong Kong Government.

**Notes:**

1. Data of land and housing here refers to the summation of Land Transaction, Rates, Properties and Investments, Property Tax and Stamp Duty of Property Transaction.
2. Stamp Duty of Property Transaction is an estimated value of 55% of the total stamp duty of Hong Kong Government in reference to a MPhil thesis 'Public Finance in Hong Kong' by Wu Chung-lin.
3. "Following the implementation of Annex III of the Joint Declaration, the ambit of this revenue head has been revised to include only land transactions completed before the coming into force of Joint Declaration, i.e. before 27 May 1985, or land transactions conferring a benefit that expires on or before 30 June 1997 and are completed on or after 27 May 1985 will be credited direct to the 'Suspense Account' of the Capital Work Reserve Fund in the first instance pending sharing with the future of Hong Kong Special Administrative Region Government and the Hong Kong Government will be credited to the 'Works Account' of the Capital Works Reserve Fund." (Census and Statistics Department, Hong Kong Government, 1996, p. 157)
4. Data for Financial Year 1970/71 to 1979/80 were compiled from 'The Hong Kong Annual Digest of Statistics 1981'. Hong Kong: Census and Statistics Department, Hong Kong Government.
5. Data for Financial Year 1980/81 were compiled from 'The Hong Kong Annual Digest of Statistics 1990.' Hong Kong: Census and Statistics Department, Hong Kong Government.
6. Data for Financial Year 1991/92 to 1995/96 were compiled from 'The Hong Kong Annual Digest of Statistics 1996'. Hong Kong: Census and Statistics Department, Hong Kong Government.



Selecting the land and housing as the case study is also motivated by its perceived importance among the general public. The perceived importance is reflected in:

- (i) the predominant role of land and housing in the stock market of Hong Kong; one quarter of the stock value is contributed by property investment. (Kam, 1992, 191-193 & 195)
- (ii) the serious of social conflicts in the provision of public and private housing in the past twenty years. As said by Cheung and Louie (1991), public housing problems form the second largest group of social conflict in the 1980s. In the 1990s, the escalating property price has generated much financial burden to the general public. It finally made private housing become a social conflict arena. (Hong Kong Economic Daily, 1994; Won, 1994)

#### **1.4.3 INDICATORS AND HYPOTHESES**

Constrained by the unavailability of confidential information, limited time and resources, the concrete mechanism of interaction and negotiation among concerned officials, and the effect of the changes in budgetary guidelines over the years will not be examined. The study of these factors, while important in understanding the forces shaping budget patterns, requires researches, which are beyond the scope of the present study. Instead, the thesis seeks to establish a *prima facie* case for the validity of the institutional dynamics by proving the following correlations:

- (a) there is a negative correlation between the economic changes (operationalized as the change in GDP) and the effort of the policy actors to preserve the conservative approach to public finance. The preservation effort is manifested in its attempt to increase revenue through arenas outside the established institutions, such as indirect tax, fees and charges, land-sale, etc.
- (b) In the case of housing and land, there is a negative correlation between the effort of the policy actors in the first level institutions to preserve the conservative approach in public finance and the budgetary increase (specifically in the CB) of the various administrative departments in the second level institutions.

Under this confined foci, indicators that the policy actors upheld the economic and fiscal policies even when the colonial government was in financial stringency are:

- (a) manipulating the amount of crown land-sale in accordance with the economic changes of Hong Kong. (operationalized as GDP upturns and downturns)
- (b) manipulating the arenas of its taxation system that are not directly related to the institutionalized economic and fiscal policies (operationalized as the arenas of indirect tax and fees & charges) in responding to the economic changes of Hong Kong. (operationalized as GDP upturns and downturns)

Indicators for the different CB budget development of different agency types in the non-hostile and hostile periods refer to the CB development of different agency types.

With the above indicators, the policy actors are hypothesized to maintain its non-tax revenue and tax revenue in the following ways:

1. Supplied the Crown land non-steadily:
  - i. land supply would be increased substantially when the colony was undergoing economic upturns so as to maximize government revenue
  - ii. land supply would be unduly low when the colony was undergoing economic downturns so as to lower the loss from unsatisfactory land sale performance.
2. Increased the role of indirect tax and fees & charges in government extraction role rather than pushing up the tax rate of Hong Kong even when tax burden inequality are found.

Budget patterns of the selected land and housing departments during the study period are hypothesized as follows:

1. The Delivery, the Delivery/Trading, the Regulatory and the Taxing agencies would have a greater CB growth in the non-hostile periods than in the hostile periods.
2. The CB downturn pressure of the Delivery / Trading agency would be more intense than the Delivery and the Regulatory agencies in the non-hostile periods.
3. The Taxing agencies would undergo a lower CB downward development in the non-hostile periods relative to the Delivery, Regulatory and Delivery / Trading agencies.
4. The Transfer / Regulatory agencies would have a relatively constant CB budget growth in the non-hostile periods than in the hostile periods.
5. The PELB & WB and TB would be subjected to lighter CB downward pressure than the HB in the hostile periods.
6. The Servicing agency would have fluctuated-CB patterns in the whole study period in respond to the service demand from its client departments.
7. The Trading agency would have fluctuated-CB patterns in the whole study period in respond to its particular market situation.



#### **1.4.4 METHODOLOGY**

##### **(a) Research Design & Source(s) of Data**

Data collection will be made through review of government documents, academic research, research from private research company and newspaper, etc. The works of historians will be used to probe out the historic-setting or the background of the study.

Documentary analysis is supplemented by a few in-depth interviews. (Brewer and Hunter, 1989, p. 177 & 184-185) Profiles of the interviewees are provided in Appendix I. The interviewees are located by 'snowball' method.

##### **(b) Method(s) of Analysis**

Historical-documentary analysis is the method of study in this research. To avoid the problem of selection bias of historical monograph, as suggested by Lustick (1996), various historic works will be crosschecked before adopted. If inconsistency is found between different works, the most convincing one will be chosen. Generally, the longer and richer the volume of information, the higher its validity will be.

The in-depth interviews, they will be conducted in 'structured open-response mode', so that the information on the interviewee's life world can be gathered. It serves a crosschecking function and avoids the imposition of some theoretical driven judgment upon the interviewees. (King, 1994) Thus, an interview guide will be distributed to all the interviews so as to ensure their reliability. All interviews will be recorded by audio-tape and transcribed. The transcribed interview data will undergo a systematic process of analysis. Procedures are

as follows: (1) read through all transcriptions; (2) cluster the topics demonstrated by the informants; (3) find the most descriptive wordings and turning into categories; (4) finally, assemble the interview data turn them into categories. (Creswell, 1994, pp. 154-155) Finally, the data will serve as a source of monograph in depicting the historic-setting and it will also be used to supplement the documentary analysis on budget usage in the two institutional levels. The scopes of the interviews include rationality of government bureaucrats, their relative autonomy on budget usage, institutional mechanism and the concrete processes of budget drafting of the colonial government and the inter-department budgetary relations. (Sample of questionnaires are attached in Appendices II-IV.)

## **1.5 ORGANIZATION OF THE RESEARCH**

Following this introductory chapter, chapter two will be a general historical background study. Chapter three will illustrate the negative correlation between the economic changes and the budget control effort of the policy actors and hence the particular budgetary direction of the colonial government in the past two decades.

Chapter four, the negative correlation between the budget control effort of the policy actors and the CB increase feasibility of different types of agency / administrative departments of the colonial government will be studied.

Chapter five, implications of the findings in terms of the extent of applicability of the general model in understanding the public budgeting of Hong Kong will be discussed, followed by the shortcomings of present study and suggestions for further research.



## Notes

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- <sup>1</sup> It means that the government “exercise certain controls over the enfranchised public utility undertakings in the private sector to ensure that they enjoy no more than a quasi-competitive return on capital . . .” (Haddon-Cave, 1980, pp. xii-xiii)
- <sup>2</sup> Articles which focus on particular budget items are: Chan (1981 & 1984), Yeung (1983), Yuen (1993), Yum (1988) and Tang (1988a; 1988b; 1988c; 1992; 1994; 1996; 1989; 1991; 1991a; 1991b; 1991c).
- <sup>3</sup> Articles which focus on philosophy of the government are: Lam (1994), Tang (1984; 1987; 1990; 1990a; 1995; 1995a), Tang (1984; 1996; 1996a; 1996b; 1996c).
- <sup>4</sup> Wu’s works include Wu (1977; 1978; 1983).
- <sup>5</sup> We can also refer to ‘*Government by the Market: The Politics of Public Choice.*’ by Peter Self (1993).
- <sup>6</sup> “Bounded rationality’s emphasis on process - not outcome - makes it analogous to the legal concept of procedural due process, which asks whether the procedure that led to the result was fair, rather than whether the outcome itself is fair. This stands in contrast to the traditional concept of rationality, which stresses rational outcomes - i.e., outcomes occurring not necessarily from a rational process, which was they has resulted from the process.” (Monroe, 1991, p. 5)
- <sup>7</sup> Relative to the neo-institutionalism, there is an old one. (Apter, 1991; Atkinson, 1996; Peters, 1996) There are two main differences between them. First, unlike the old institutionalism, neo-institutionalism does not regard institutions as a determinant factor in molding, ordering human motives and behaviour, but as an intervening variable in mediating and shaping the administrative behaviour and government policy. Second, neo-institutionalism does not simply focus on the formal aspect of institution in explaining administrative behaviour, but also informal one, like norms and culture. (Rothstein, 1996; Searing, 1991)
- <sup>8</sup> Further readings on institutional rational choice theory are: Bush (1993 & 1995), Groenwegen, Frans and Ad (1995), Horn (1995), Knight (1992), Udehn (1985), Noll & Weingast (1991); North (1990; 1990a; 1993 and 1995), Ostrom (1990), Sened (1991), Shepsle (1989), Tang (1992), Weingast (1996) etc.
- <sup>9</sup> There are many other sociological institutionalists works, like Zucker (1983, 1987, 1988 and 1988a), Meyer (1978, 1992, 1992b, 1992c, 1994, 1994a, 1994b); Meyer and Rowan (1992 & 1992a); Meyer and Scott (1992 & 1992a); Meyer, Boli & Gwerge (1994); Scott (1992 & 1994), Scott and Meyer (1991) etc.
- <sup>10</sup> “The concept [contingent necessity] implies the following arguments:
- (a) . . . an adequate explanations for an actual event must show how different causal chains interacted make it necessary;
  - (b) even though the actual event it the over-determined result of interaction of different chains, no single theory exists (or could be developed) which explain why this interaction had to occur nor why its outcome was necessary;
  - (c) since the necessity of an actual event is indeterminable (contingent) relative to any one theoretical schema, explanations for it must be historical (or genealogical)
  - (d) this does not mean that explanations involve merely chronological enumeration. If



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discrete events which fails to refer to their origin in real cause mechanisms and tendencies; and

- (e) the adequacy of an explanations for an 'contingency necessary' empirical events depends on the level of abstraction and the degree of complexity at which is specified - the less abstract and more complex the event, the more determinate it is and the more detailed must be any specification of causal mechanism, initial conditions and so forth." (Jessop, 1990, pp. 73-75)
- <sup>11</sup> According to Crawford and Ostrom (1995), "institutional statement refers to a shared linguistic constraint or opportunity that prescribes, permits or advises actions or outcomes for actors (both individual and corporate). Institutional statements are spoken, written and tacitly understood in a form intelligible in an empirical setting. In theoretical analysis, institutional statement will also be interpretation and abstractions of empirical constraints and opportunities" (p. 583)
- <sup>12</sup> Reinstitutionalization in Hong Kong referred to the run-down of the activities of one or more established government departments and to reallocate the resources to alternative agencies to take up the concerned activities so as to save the government expenses in the activities in the long run. (Dunleavy, 1991)
- <sup>13</sup> Privatization in the context of Hong Kong only refers to 'delegation by grants'. (Savas, 1989/90) It means that the Hong Kong Government arranges an agency or agencies, they may either be a newly formed or an established one, to do the work and provides a subsidy instead of carrying out the service by the established agency concern. The privatized or commercialized mode of operation of these new agencies save much money for the Government in sense of lesser government subsidy, however, she can still retain the responsibility to oversee it. (Savas, 1989/90)
- <sup>14</sup> Researches which demonstrate the capacity of government department in exaggerating budget are '*Public Budgeting in Hong Kong*' by Lo Cheng Sik-sze and '*Value of Money: The Hong Kong Budgetary Process*.' by Alvin Rubhuska.
- <sup>15</sup> A type of institutions, namely the 'bureau-society relations' is insignificant in the Hong Kong in that the refugee behaviour of the early Hong Kongese and the highly centralized, hierarchical and non-democratic colonial government bureaucracy paralyzed the developing of Hong Kong civil society and hence the prominence of the 'bureau-society relations'. (Copper and Lui, 1990)
- <sup>16</sup> Li (1996) and Scott & Burns (1988) argue that the colonial government had undergone a structural and functional expansion of government organs and the number of employees respectively. At the same time, the provision of social services also underwent tremendous expansion. In the midst of the 1980s, Hong Kong suffered from turmoil caused by sovereignty transfer and constitutional change, leading to the introduction of 'public sector reform' and privatization of government agencies, etc. (Cheung and Louie, 1991; Li, 1994 & 1996)
- <sup>17</sup> The adoption of the complete segment of indirect tax and fees & charge rather than their particular land and housing segment is caused by the non-provision of their respective revenue breakdown in the colonial government accounting documents.

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## CHAPTER TWO: THE BACKGROUND

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This chapter outlines the public finance systems and its administrative institutions in Hong Kong during the colonial period. It consists of four sections. The first section outlines the characteristics of the public finance system, followed by the context of the two institutional levels. The third section presents the composition and the positioning of the actors in the two institutional levels while the last section tries to identify the roots of the institutions in the two institutional levels.

### **2.1 CHARACTERISTICS OF THE COLONIAL PUBLIC FINANCE SYSTEM & MACRO-ECONOMIC CONTEXT FOR THE PUBLIC FINANCE SYSTEM**

#### **2.1.1 Revenue Aspect of the Public Finance System**

##### **(a) Composing of Tax and Non-Tax Revenue**

The tax segment composed of direct tax and indirect tax. The direct tax included 'profits tax<sup>18</sup>', 'property tax<sup>19</sup>', 'interest tax<sup>20</sup>', 'salaries tax<sup>21</sup>' and 'estate duty<sup>22</sup>'. (Hsia and Chau, 1978, p. 151; Wu, 1977, pp. 21-64) Indirect tax included some miscellaneous tax items, like 'entertainment tax<sup>23</sup>' and 'bets and sweeps tax<sup>24</sup>'. (Wu, 1977; Tang, 1992)

Non-tax revenue mainly came from the sales of crown land. Other items such as 'import and excise duties<sup>25</sup>', 'rates<sup>26</sup>', 'stamp duty<sup>27</sup>', 'licenses, franchises and fees<sup>28</sup>', as well as 'ownership of property<sup>29</sup>' also belonged to indirect tax. (Wu, 1977; Tang, 1992)



**(b) Low Revenue Extraction Role of the Direct Tax**

The low proportion of direct tax in the total government revenue was reflected in the fact that:

- (i) direct tax had never constituted more than 60% of the total government revenue from the post-war period to the 1960s. (Table 2.2.1)

TABLE 2.1.1 RELATIVE WEIGHTING OF DIRECT TAX & INDIRECT TAX 1947/48 - 1992/93			
Financial Year	Direct Tax : Indirect Tax	Financial Year	Direct Tax : Indirect Tax
1947/48	14.5% : 85.5%	1970/71	44.1% : 55.9%
1948/49	31.5% : 68.5%	1971/72	43.7% : 56.3%
1949/50	23.8% : 76.2%	1972/73	38.5% : 61.5%
1950/51	26.7% : 73.3%	1973/74	53.4% : 46.6%
1951/52	27.1% : 72.9%	1974/75	61.6% : 38.4%
1952/53	40.9% : 59.1%	1975/76	56.4% : 43.6%
1953/54	39.9% : 60.1%	1976/77	56.0% : 44.0%
1954/55	38.0% : 62.0%	1977/78	54.4% : 45.6%
1955/56	32.5% : 62.5%	1978/79	58.7% : 41.3%
1956/57	32.3% : 67.7%	1979/80	59.0% : 41.0%
1957/58	32.6% : 67.4%	1980/81	63.9% : 36.1%
1958/59	32.7% : 67.3%	1981/82	68.9% : 31.1%
1959/60	30.1% : 69.9%	1982/83	60.4% : 39.6%
1960/61	29.8% : 70.2%	1983/84	60.4% : 39.6%
1961/62	32.6% : 67.4%	1984/85	62.0% : 38.0%
1962/63	32.7% : 67.3%	1985/86	60.5% : 39.5%
1963/64	34.0% : 66.0%	1986/87	59.6% : 40.4%
1964/65	34.6% : 65.4%	1987/88	60.4% : 39.6%
1965/66	35.9% : 64.1%	1988/89	61.7% : 38.3%
1966/67	36.9% : 63.1%	1989/90	62.4% : 37.6%
1967/68	38.1% : 61.9%	1990/91	59.8% : 40.2%
1968/69	37.9% : 62.1%	1991/92	58.5% : 41.5%
1969/70	38.9% : 61.1%	1992/93	60.8% : 39.2%

Source: Tang, 1992b, p. 47

- (ii) Direct tax increase has been rare since WWII. There were only three such increase incidents happened in the past two decades. The first happened after the 1973 oil crisis as it was made to contribute for more than 55% of the total government revenue. The second happened in the mid-1980s as the colony was undergoing another economic recession and direct tax was increased to 68.9% of the total government revenue. (Tang, 1992b) The last one happened after the issuing of Sino-British Joint Declaration, in which the colonial government was made to contribute half of the land sale revenue to the HKSAR government.

## 2.1.2 Expenditure Aspect of the Public Finance System

The main characteristics in the expenditure domain of the public finance system are:

### (a) Decline in the Rate of Growth of Public Expenditure Since the Mid-1980s

There is a decline in the growth of the public expenditure from 1970/71 to 1982/83, the average growth rate of government expenditure was 23.4% while from 1983/84 to 1995/96 it was only 14.1% respectively. (Table 2.1.2A)

<b>TABLE 2.1.2A GOVERNMENT EXPENDITURE GROWTH RATE FROM 1970/71 TO 1995/96</b>					
<b>Financial Year</b>	<b>Amount HK\$ Million</b>	<b>Annual Growth Rate (%)</b>	<b>Financial Year</b>	<b>Annual Growth Rate (%)</b>	<b>Amount HK\$ Million</b>
1970/1971	2452.2	-	1983/1984	35346.3	+9.5
1971/1972	2901.4	+18.3	1984/1985	36086.9	+2.1
1972/1973	4299.6	+48.2	1985/1986	40845.1	+7.6
1973/1974	5169.2	+20.2	1986/1987	42703.7	+4.6
1974/1975	6255.2	+21.0	1987/1988	48375.1	+13.3
1975/1976	6032.2	-3.5	1988/1989	56592.1	+17.0
1976/1977	6590.9	+9.3	1989/1990	71366.5	+26.1
1977/1978	8996.9	+36.5	1990/1991	85556.7	+19.9
1978/1979	11090.1	+23.3	1991/1992	92191.4	+7.8
1979/1980	13872.3	+25.1	1992/1993	113332.0	+22.9
1980/1981	23593.5	+70.1	1993/1994	147438.1	+30.1
1981/1982	30807.7	+30.6	1994/1995	164155.3	+11.3
1982/1983	32267.7	+4.7	1995/1996	183158.0	+11.6
<b>Average Annual Growth Rate 1970/71 to 1982/83</b>		<b>23.4</b>	<b>Average Annual Growth Rate 1983/84 to 1995/96</b>		<b>14.1</b>

Sources:

Census and Statistics Department, Hong Kong Government. (1981, 1990, 1991 & 1996)

Notes:

1. Data from Financial Year 1970/71 to 1979/80 was compiled from 'The Hong Kong Annual Digest of Statistics 1981.' Hong Kong: Census and Statistics Department, Hong Kong Government.
2. Data from Financial Year 1980/81 was compiled from 'The Hong Kong Annual Digest of Statistics 1990.' Hong Kong: Census and Statistics Department, Hong Kong Government.
3. Data from Financial Year 1981/82 to 1990/91 was compiled from 'The Hong Kong Annual Digest of Statistics 1991'. Hong Kong: Census and Statistics Department, Hong Kong Government.
4. Data from Financial Year 1991/92 to 1995/96 was compiled from 'The Hong Kong Annual Digest of Statistics 1996. Hong Kong: Census and Statistics Department, Hong Kong Government.

### (b) Large Expenses on Social Services Provision

Table 2.1.2B shows that the social services provision in the colony, including the provision of including housing, education, social welfare and medical health, has continued to consume 35% of the total government expenditure since 1975/76.



**TABLE 2.1.2B WEIGHTING OF SOCIAL SERVICES EXPENDITURE VS  
TOTAL GOVERNMENT EXPENDITURE FROM 1970/71 TO 1995/96**

Financial Year	Social Services Expenditure (a)	Total Expenditure of the Year (b)	Relative % (a/b)	Financial Year	Social Services Expenditure (a)	Total Expenditure of the Year (b)	Relative % (a/b)
	<i>HK \$ Million</i>				<i>HK \$ Million</i>		
1970/1971	480.1	2454.2	+19.6	1983/1984	12831.4	35346.3	+36.3
1971/1972	592.3	2901.4	+20.4	1984/1985	13268.5	36086.9	+36.8
1972/1973	719.3	4299.6	+16.7	1985/1986	13762.1	40485.1	+34.0
1973/1974	1001.5	5169.2	+19.4	1986/1987	14767.6	42703.7	+31.0
1974/1975	1192.9	6255.2	+19.1	1987/1988	13484.7	48375.1	+27.9
1975/1976	1816.0	6032.2	+30.1	1988/1989	18912.4	56592.1	+33.4
1976/1977	1850.2	6590.9	+28.1	1989/1990	21554.4	74366.5	+29.0
1977/1978	3082.1	11090.1	+27.8	1990/1991	23574.5	85556.7	+27.6
1978/1979	4076.9	13872.3	+29.4	1991/1992	28353.2	92191.4	+30.8
1979/1980	5045.6	13872.3	+36.4	1992/1993	39164.7	113332.0	+34.6
1980/1981	7270.4	23593.4	+30.8	1993/1994	44484.1	147438.1	+30.2
1981/1982	9624.2	30807.7	+31.2	1994/1995	56259.1	164155.3	+34.3
1982/1983	11718.3	33060.2	+35.4	1995/1996	67989.9	183158.0	+37.0

Sources:

1. Census and Statistics Department, Hong Kong Government. 1981, 1990, & 1996. *Hong Kong Annual Digest of Statistics*. Hong Kong: Census and Statistics Department, Hong Kong Government.
2. Hong Kong Treasury, Hong Kong Government. 1980/81 to 1995/96. *Accounting of Hong Kong 1980/81 and the Director of Account Services*. Hong Kong: Hong Kong Treasury, Hong Kong Government.

Notes:

1. Social Services Expenditure here refers to the government expenditure of 'Subventions' and University Grants committees on both recurrent account and capital account, 'Public works Programme for New Towns and Housing', 'Transfer to Development Loan Fund for Housing Authority', 'Transfer to Home Ownership Fund', as well as 'Transfer of Student Loan Fund'.
2. "The Capital Works Fund was established on 20 January 1982 by Resolution of the Legislative Council for the purpose of financing the Public Works Programme and the acquisition of land." (Census and Statistics Department, Hong Kong Government, 1991, p. 120) Thus, item which do not belongs to the category of 'social services' was deducted away.
3. "The Home Ownership Fund was dissolved on 1 April 1990 and the balance of \$2795.6 million as on that date was transferred to the Hong Kong Housing Authority to became of the Government's Investment in the Authority." (Census and Statistics Department, Hong Kong Government, 1991, p. 120) Thus, the social services of the 'Capital Investment Fund will be added to the calculation from 1990/91 to 1995/96.
4. "The Capital Investment Fund and the Loan Fund were established on 1 April 1990 by Resolution of the Legislative Council. These funds assumed the functions of the former Development Loan Fund, the Mass Transit Fund and the Student Loan Fund." (Census and Statistics Department, Hong Kong Government, 1991, p. 120) Thus, the 'Loan Fund' and 'Capital Investment Fund' of Social Services are added on calculation.
5. Expenditure of 'Public Works Programme (New Towns and Housing)' for 1980/81 to 1995/96 were complied from 'Accounts of Hong Kong and Annual Report of the Director of Accounting Services.'
6. Data for Financial Year 1970/71 to 1979/80 were complied from 'The Hong Kong Annual Digest of Statistics 1981, p. 98. Hong Kong: Census and Statistics Department, Hong Kong Government.
7. Data for Financial Year 1980/81 were complied from 'The Hong Kong Annual Digest of Statistics 1990, p. 121 Hong Kong: Census and Statistics Department, Hong Kong Government.
8. Data for Financial Year 1991/92 to 1995/96 were complied from 'The Hong Kong Annual Digest of Statistics 1996, p. 157. Hong Kong: Census and Statistics Department, Hong Kong Government.



**(c) Operating Financial Activities by Wide Variety of 'Accounts' & 'Fund'**

**(i) General Revenue Account:**

General Revenue Account acted as the main funding device for the colonial government. (Hong Kong Government, Census and Statistics Department, 1991) The General Revenue Account of expenditure was divided into 'recurrent account' and 'capital account'.

The 'recurrent account' accounted for the operating or running cost of the government, like the salary of civil servant, the personal related expenses (training) and the daily departmental expenses. Expenditure for the social services provision (except housing) was made through the item of 'subvention'.

The 'Capital Account' accounted for the non-daily operating cost of the government, such as plant and equipment establishment. (Census and Statistics Department, Hong Kong Government, 1991)

**(i) Funds:**

According to Interviewee C, the operation of 'fund' is similar to infrastructure development fund of Singapore. Operationally, it included the 'Capital Works Reserve Fund'<sup>30</sup>, 'Capital Investment Fund'<sup>31</sup> and 'Loan Fund'<sup>32</sup>, 'Exchange Fund'<sup>33</sup> and 'Lands Fund'<sup>34</sup>. Appropriation of these funds was generally made through the 'Transfer to Fund' from the 'General Revenue Account' during the annual government budget exercise. (Chu, 1997c; Tang, 1992b)

Expenses for social services provision was generally made through various 'funds', except the provision of public housing. The reinstitutionalization of the HA led to the termination of the 'Development Loan Fund'. As a result, the HA had been made to operate in a self-financed mode. The residual part of the 'Development Loan Fund' was transferred to the HA and became a part of the government investment in the HA. (Chu, 1997c)

**(d) Conservative Operation of the Public Finance System**

Conservative operation of the public finance is manifested in the rare initiations of budget deficits since post-war period as the colonial government only initiated six deficit budgets from 1947/48 till the end of the colonial rule. (Sung, 1989)

In the last two decades, budget deficits only happened in 1974/75 for HK\$380 million, 1982/83 for HK\$3500 million, 1983/84 for HK\$2993 million, as well as 1984/85 for HK\$1563 million. (Hong Kong Government, Various Years(b)- 1986)

**(e) The Dominance of Policy Actors in Public Budget-Making**

The dominance of the policy actors is manifested in the annual budget exercise of the colonial government as the senior bureaucrats of various administrative departments (heads of department) made their departmental budgets according to the timetable and the circular or guidelines derived by the ‘Star Chamber’. (Table 2.1.2C) Policy branches were responsible for monitoring and supervising the progress of the timetable and the adherence of the circular or guidelines in the actual operation of the budget-making exercise. However, the policy branches were also subjected to the same set of requirements when making their budgets. Among the policy branches, the FB was the main coordinator.

TABLE 2.1.2C KEY STAGES OF THE ANNUAL BUDGET CYCLE OF THE COLONIAL GOVERNMENT		
Stage	Schedules	Remarks
1.	Heads of Department were requested to submit a report to the FB and lead the FB to acquire sufficient information in advising the Star Chamber in deciding expense priority for the colonial government. <sup>1</sup>	♦ Usually happened in July
2.	Setting government expenses priority of a given financial year based in the expenses requested by various government departments and the forecasted government revenue of the financial year.	-



3. Release timetable, circular or guidelines to various policy branches and departments following priority of public spending derived by the Star Chamber.
4. Departments would submit their draft estimate to their respective policy branch. The policy branches would judge if the needs of particular departments were larger or not under the constraints of the Finance Branch portioned of the year.

Policy branch:

  - ◆ distributed appropriate forms to their supervising departments to fill in;
  - ◆ might have discussion with its supervising departments individually in order to come to department budget proposal before submitting to the Finance Branch.
5. After that, the policy branches would submit the amended departmental draft estimate to the Finance Branch.
  - ◆ Budget planning for the Works departments, like the LD and the Engineering Department, needed to be additionally passed the examination of Land Development Planning Committee before the introduction of the Sino-British Joint Declaration in which policy formulation of the amount of land was going to develop or to dispose would be decided by it and finally passed to the ExCo and finally to the LegCo for legislation. The Committee consists exclusively of government official members with the Chief Secretary as the chairman. (Lau, 1985, p. 10)
  - ◆ After the introduction of the Declaration, the role was transported to the Land Commission. It was jointly conducted by both the British colonial government and the PRC.
6. Star chamber, chaired by the Chief Secretary, would have meetings to examine the various budget proposals of different policy branches to see if they were justified or not so as to finalize the budget proposal and send it to the LegCo.
  - ◆ Usually happened in December
7. Presenting the budget proposal to the public
  - ◆ Usually happened in February
8. Adjuring the budget debate in LegCo and presenting the budget proposal to the Finance Committee<sup>2</sup> for further examination
  - ◆ The Finance Committee was responsible for scrutinizing public expenditure.
  - ◆ Special meetings were held in March to examine the draft budget
  - ◆ Regular meetings were held from October to July to examine the occasional changes (additional appropriation or appropriation affairs of new policies) of the estimates.



- ◆ Government officials needed to take the likely reactions of the committee into account once proposing any kind of appropriation. It was especially true when the meetings of the Finance Committee to open to the public from 1985 onwards.
- 9. Finish the examination in the Committee, the proposal would be resubmitted to the LegCo for a Second Reading Debate
- ◆ The Debate was open to criticism from the councilors and the decisions would be finalized by the Financial Secretary
- 10. Third Reading of the budget proposal in form of an Appropriation Bill came and the bill became law -
- 11. Public money would release through the Treasury -
- 12. Government departments could request for additional appropriation in the midst of a financial year after the approval of the Finance Committee and LegCo.
  - ◆ Once the money was used for a completely fresh item or project. The respected policy branch of the requesting departments would need to report to the FB. It would conduct similar steps of examination as those in the annual budget exercise before having any recommendation of 'supplementary appropriation'.
- 13.
  - ◆ Departments had the autonomy to portion and allocate their appropriated money among its different divisions -
  - ◆ And they might use their appropriated money among its different divisions and they might use their autonomy of funding reallocation within departments to tackle the problem in case when certain departments needed additional funding for a particular item offer the introduction of public sector reform.

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Sources:

Chu (1997), Chu (1997c), Miners (1995), Hong Kong Government (Various Years(a) - 1974), Hong Kong Government (Various Years(a) - 1986), Hong Kong Government (Various Years(b) - 1987), Lee (1986).

Notes:

1. The theme of the report in stage one included (i) actual expenditure in the current year, (ii) their forecast of expenditure in the coming years, (iii) distinguishing the amount of expenditure that are used for maintaining their current service provision and (iv) the expenditure that are used for new items.
  2. The Finance Committee serves as an interim institutional mechanism of government appropriation scrutiny and its power is derived from article 183 of the colonial regulation, Standing Order 60 and Section eight of Public Finance Ordinance that it has an absolute veto over all items of the Government. (Miners, 1995, p. 137; Hong Kong Government, Various Years(b)) According to Interviewee C, the Committee take care of board questions of public finance, like the balance of expenditure different policy areas, strategic decision of resources allocation in response to the changing size of population or economic re-structuration,. From October 1994 onwards, the Committee was chaired by non-official member, in which the ex-officio members, the Chief Secretary and the Financial Secretary remained as committee members only until the dissolution of the LegCo in 1995. (Hong Kong Government, Various Years(b))
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## 2.2 MACRO ECONOMIC CONTEXTS FOR THE TWO INSTITUTIONAL LEVELS FROM THE 1970S TO THE 1990S.

### 2.2.1 FINANCIALLY NON-Stringent & Stringent Periods for the First Level Institutions

The financially non-stringent periods can be located through the growth patterns of government revenue. Referring to Table 2.2.1A,

TABLE 2.2.1A DEVELOPMENT OF TOTAL GOVERNMENT REVENUE FROM 1973/74 TO 1994/95					
Financial Year	Total Revenue of the Year (a)	Annual % Change (a/b)	Financial Year	Total Revenue of the Year (b)	Annual % Change (a/b)
	<i>HK \$ Million</i>			<i>HK \$ Million</i>	
1973/1974	5240.8	6.0	1984/1985	36342.5	19.0
1974/1975	5875.3	12.0	1985/1986	41214.0	13.0
1975/1976	6519.5	10.0	1986/1987	43869.6	6.0
1976/1977	7943.5	21.0	1987/1988	55641.4	26.0
1977/1978	10232.3	28.0	1988/1989	65780.7	18.0
1978/1979	12557.0	22.0	1989/1990	74365.2	13.0
1979/1980	16796.1	33.0	1990/1991	89523.8	20.0
1980/1981	30290.3	80.0	1991/1992	114699.9	28.0
1981/1982	34312.9	11.0	1992/1993	135310.9	17.0
			1993/1994	166602.2	23.0
1982/1983	31097.6	-9.0	1994/1995	174998.4	5.0
1983/1984	30339.7	-2.0			
<i>Annual Average Growth Rate from 1973/74 to 1981/82</i>		<i>26.5</i>	<i>Annual Average Growth Rate from 1982/83 to 1994/95</i>		<i>13.4</i>

Sources:

1. Census and Statistics Department, Hong Kong Government. 1981, 1990, & 1996. *Hong Kong Annual Digest of Statistics*. Hong Kong: Census and Statistics Department, Hong Kong Government.
2. Treasury of Hong Kong Government. 1970-1996. *Accounts of Hong Kong and Annual Report of Accountant General*. Hong Kong: Treasury of Hong Kong Government.

Notes:

1. Data for Financial Year 1970/71 to 1979/80 were compiled from 'The Hong Kong Annual Digest of Statistics 1981'. Hong Kong: Census and Statistics Department, Hong Kong Government.
2. Data for Financial Year 1980/81 were compiled from 'The Hong Kong Annual Digest of Statistics 1990'. Hong Kong: Census and Statistics Department, Hong Kong Government.
3. Data for Financial Year 1991/92 to 1995/96 were compiled from 'The Hong Kong Annual Digest of Statistics 1996'. Hong Kong: Census and Statistics Department, Hong Kong Government.

Two general periods can be identified. 1973/74-1980/81 is a financially non-stringent budget-making period while 1981/82-1994/95 is a financially stringent budget-making period for the first level institutions. This is because (1) after 1981/82, the annual average growth rate of government revenue had never been risen back to the level in 1981/82; and (2) the average government growth rate of the later period (13.4%) is much lower than the former one (26.5%).



Driven by a common sense of economic development works like a cycle, short-term financially stringent period would be happened among the general financially stringent period. Also, short-term financially non-stringency would be happened in the period of general financial stringency. These two variations can be identified through the economic development of the colony as summarized in Tables 2.2.1B and 2.2.1C.

TABLE 2.2.1B ECONOMIC CONTEXT OF THE GENERAL FINANCIALLY NON-STRINGENT PERIOD (1973/74 - 1981/82)			
Sub-Periods	Upturn / Downturn	Justifications	Stringency or Not (Y/N)
1973/74 - 1974/75	Upturn	<u>Prosperous economic development of the colony in terms of:</u> <ul style="list-style-type: none"> <li>♦ quick rehabilitation of the economy after the 1967 riots</li> <li>♦ government revenue increased by 12 times from the 1950s to the 1970s</li> <li>♦ export rate expanded by 7 times from the 1950s to the 1970s</li> <li>♦ 12.5% of real GDP growth in 1973</li> </ul>	N
1975/76 - 1976/77	Downturn	<u>Subjected to the global economic recession with justifications of:</u> <ul style="list-style-type: none"> <li>♦ budget in 1975/76 was ended with a deficit conclusion of \$2268 million</li> </ul>	Y
1977/78 - 1981/82	Upturn	<u>Starting to bottom-out from the recession impact of the colony with indications of:</u> <ul style="list-style-type: none"> <li>♦ investment of property market was increasing active in 1977</li> <li>♦ high level of building activities in 1978</li> <li>♦ impressive export performance in terms of GDP growth which was higher than original estimation</li> <li>♦ GDP grew by 11%</li> <li>♦ the global economic downturn in 1980 led to a slow-down of land and property markets, except the commercial land demand for which was fierce at that time.</li> </ul>	N

Sources:

1. Sources for the period of 1973/74-1974/75 are: Hong Kong Government (Various Years (b) - 1973; Various Years (b) - 1973; Various Years (b) - 1976) and Hong Kong Government (1993).
2. Source for the period of 1975/76-1976/77 are: Hong Kong Government (Various Years (b) - 1976)
3. Sources for the period of 1977/78-1981/82 are: Hong Kong Government (Various Years (b) - 1978; Various Years (b) - 1979, Various Years -1980 ; Various Years (b) - 1982) and Hong Kong Government (1980).



**TABLE 2.2.1B ECONOMIC CONTEXT OF  
THE GENERAL FINANCIALLY STRINGENT PERIOD FROM 1982/83 TO 1994/95**

Sub-periods	Upturn / Downturn	Justifications	Stringent or Not (Y/N)
1982/83 - 1983/84	Downturn	<u>Burgeoning financial stringency &amp; the economy fell into misery with indications of:</u> <ul style="list-style-type: none"> <li>♦ windfall of government revenue as a result of global economic recession and political uncertainty driven by 1997 issue</li> <li>♦ GDP in 1982 was only a quarter of the recorded in each of the previous five years</li> <li>♦ landsales had been dropped by 25%, which consequently led to two budget deficit of HK3.5 billion and HK\$ 3 billion in 1982/83 and 1983/84 respectively.</li> </ul>	Y
1984/85 - 1987/88	Upturn	<u>Ease off of confidence crisis and resumption of economic prosperity after the introduction of the Sino-British Joint Declaration:</u> <ul style="list-style-type: none"> <li>♦ strong recovery of property market</li> <li>♦ domestic exports grew by 16% and GDP grew by 8.7% in 1986</li> <li>♦ rapid growth of domestic export continued in 1987: attained 23.2% of export growth and 13.6% of GDP growth in 1987</li> <li>♦ property market was very prosperous in terms of high take-up rate of commercial and residential property and a very high auction land price in 1986 and 1987</li> <li>♦ economic growth of the economy came to consolidate, but still attained 7.5% of GDP growth in real terms.</li> <li>♦ Suspense account effect in sense of half of crown land sale revenue was saved up of the government of HKSAR discounted part of the effect of economic upturn</li> </ul>	N
1988/89 - 1993/94	Downturn	<u>Slowing down of the economic growth of Hong Kong for which was contributed by</u> <ul style="list-style-type: none"> <li>♦ the downplaying of the manufacturing industries (GDP in the 1990s consequently never attained to the level in the 1980s)</li> <li>♦ June 4<sup>th</sup> incident in the second half of 1989</li> <li>♦ Gulf crisis in late 1990</li> <li>♦ Sino-British Dispute of issues of British Nationality Package and the PADS</li> <li>♦ Sino-British Dispute over Patten's constitutional reform from 1992 onwards</li> </ul>	Y
1994/95	Downturn	<u>Moderate Slow down of the colony which was caused by:</u> <ul style="list-style-type: none"> <li>♦ sharp slowdown in domestic and private sector building activity</li> <li>♦ significant downturn of the residential property market</li> <li>♦ the short term and half hearted anti-speculations measures for the property market led the economic downturn of the colony only in a limited extent in sense of there are only 5 points decrease of the affordability index of home purchasers<sup>35</sup> that complied by the R&amp;V relative to the 40 points increase from 1992 to 1994.<sup>36</sup></li> </ul>	Y

**Sources:**

1. Sources for the period of 1982/83-1983/84 are Hong Kong Government (Various Years (a) – 1984; Various Years (a) – 1985; Various Years(a) – 1986; Various Years(a) - 1987); Hong Kong Government (Various Years (b) - 1983) and Tang (1995c).
2. Sources for the period of 1984/85-1987/88 are from: Hong Kong Government (Various Years (a) - 1986); Hong Kong Government (Various Years (b) – 1986; Various Years (b) – 1987; Various Years (b) – 1988; Various Years (b) - 1989; Various Years (b) – 1990); Xu (1990).
3. Sources for period of 1988/89-1993/94 are from: Cradock (1994, p. 238-239); Hong Kong Government (Various Years(b) - 1990; Various Years(b) – 1991; Various Years(b) - 1992; Various Years (b) - 1993; Various Years (b) - 1994; Various Years(b) – 1995); King (1995); Law (1992); Lui (1997); Shui On Group (1991b); Tai Kung Po (1993); Wen Wei Po (1992) and Xiao (1993).
4. Sources for the 1994/95 are from: Chu (1997e); Hong Kong Government (Various Years (b) – 1995; Various Years (b) - 1996) and Lai (1994).

### **2.2.2 Non-Hostile & Hostile Periods for the Second Level Institutions**

In general the colonial history shows that the policy actors in the first level institutions would tighten government expenses whenever the colonial government was in financial stringency. Consequently, it brought a hostile budget-making environment to the second level institutions. Prior to the tightening of government expenses by the policy actors, the second level institutions can be said to be in a non-hostile budget-making environment as the budget proposals of various administrative departments were in the same public finance direction of the colonial government. Since housing provision is a significant integral part of social service provision of the colonial government, the being of the hostile and the non-hostile periods of the second level institutions are manifested in the expansion and contraction of social service provision from the 1970s to the first half of the 1980s and from the second half of mid-1980s to the 1990s respectively. (Li, 1995)

To illustrate, in the 1970s, the colonial government tackled the escalating demand of social service provision by introducing various large-scale social service programmes, such as the public rental housing construction, new town development, compulsory education, etc. In those days, the budget proposals could easily be approved if they were in those expanding areas of social services. (Hong Kong Government, Various Years(b); -1981; Scott, 1989) In turn, a general non-hostile budget-making environment was created.



During the financially stringency in the 1980s and the 1990s, the successive budget-tightening actions of the policy actors had consequently made the second level institutions situated in a continuously hostile budget-making period. The first action was the budget deficit response towards the economic downturns of the colony in the three budget-deficit financial year in the early 1980s. This was followed by the introduction of a financial management reform after 1983/84. As what had been said by Lee (1996) that,

“the Finance Branch began to allow flexibility and incentives for departments to make operational decisions in the mid-1980s, including (a) the adoption of a medium forecast in public expenditure, and (b) greater freedom for departments to redeploy savings and rather ploughing them back to the General Revenue . . . In 1987-88, the Finance Branch also began to review the traditional budgetary approach by conducting an ‘attack the base-line exercise with a view to encouraging managers to get more from the resources than they consumed. Preliminary experiments were also attempted to apply some business management objectives to departments like the Registrar General Department, Water Supplies Department, Electrical and Mechanical Services Department, Legal Department and Lands and Building Department.” (1996, p. 39)

The method of ‘encouraging managers to get more from the resources than they consumed’ and ‘the application of business management objectives’ formally subjected the second level institutions to increase in financial oversight.

With an understanding of the economy would not keep upturn or downturn continuously and short-term financially stringent periods would happened among the general financially non-stringent period, short-term hostile budget making periods should also be found among the general non-



hostile period of the second level institutions. Since the policy actors would tighten government expenses when the colonial government was in financial stringency and consequently produced a tight budget making environment to the second level institutions, the time frame of the general non-hostile / hostile period and the short term non-hostile / hostile periods of the second level institutions would therefore be resemblance to the general financially non-stringent / stringent and the short term financially non-stringent / stringent periods of the first level institutions respectively.

## **2.3 COMPOSITION & CHARACTERISTICS OF THE ACTORS IN THE TWO INSTITUTIONAL LEVELS**

### **2.3.1 Actors in the First Level Institutions and the Second Level Institutions**

In general the actors in the first level institutions refer to the policy actors of the colonial government. Referring to chapter VII of the colonial regulation<sup>37</sup>, the policy actors concretely composed of the governor<sup>38</sup> and the policy secretariats<sup>39</sup> (the Accountant General / Treasury, the Chief Secretary, the Financial Secretary and the Governor). The final-say of public finance of Hong Kong was vested in Governor's hand after financial independence was granted from the mother country in 1958. The policy actors operated themselves itself as the Star Chamber in the domain of public finance. (Hong Kong Government, Finance Branch, 1997) The apex position of the Star Chamber in public finance is indicated by its authority over the Finance Branch in determining the priority of the government expenses. (Hong Kong Government, Various Years (a) – 1976)

Actors in the second level institutions refer to senior bureaucrats of the selected land and housing administrative departments. (See section 1.4) They are generally in positions of directorate grade.

### **2.3.2 Superior Position of the Policy Actors / the Star Chamber over the Administrative Departments in Public Finance**

The superiority of the policy actors over the senior bureaucrats in the second level institutions in public finance is first manifested in its leading role in various stages of public budget making.

The leading role of the policy actors is first manifested in the passive role of the administrative departments in stage in the early stage of the annual budget exercise (stage 3). (Table 2.1.2C in section 2.1) These administrative departments were made to follow all the budget-making timetable, guidelines<sup>40</sup> or executive circulars, as well as procedures that were derived according to the expense priority<sup>41</sup> set by the Star Chamber. Policy branches only were served as mediators between the Star Chamber and the administrative departments. Although the FB was the main coordinator in the budget exercise, it only served a supporting role in the priority setting exercise, such as providing forecasted government revenue level to the Star Chamber.<sup>42</sup> (Chu, 1997)

The dominant role of the policy actors is also manifested in the stage of departmental budget proposal scrutiny. (Stage 4 in Table 2.2.1C) The process, according to Interviewee C, made the budget proposals of the administrative departments (Stage 4) need to be conform to the policy directions initiated by the policy actors as the departmental senior bureaucrats do not want their proposals rejected or drastically revised. Moreover, the dominant role of the policy actors is also manifested in the annual exercise as the group had the final say in all the budget request from the administrative departments.

The dominant role of the Star Chamber in the colonial period was also facilitated by its high administrative autonomy from various social groups. Politically, the Star Chamber is autonomous from the Executive Council and



Legislative Council as the Executive councilors only served as advisers on government policies while the Legislative councilors could not propose any motions to raise public expenditure without the governor’s consent under the executive-led framework of the colonial government. (Lam & Lee, 1994; Lee 1994) Moreover, the relative autonomy is facilitated by the immaturity of the local policy parties for their burgeoning did not come into being till the inception of electoral components in the mid-1980s.

As a matter of fact, the superiority of the policy actors over the senior bureaucrats in the second level institutions in public finance is a reflection of executive-administrative division of labour. It is in the sense that the policy actors were institutionalized in the apex of the colonial government bureaucracy while administrative departments were made to implement the policy directions of the policy actors. The policy implementation roles of the administrative departments are reflected on their designated functional roles among the government bureaucracy through the enactment of legal ordinances. Their functional roles and their abided ordinances are summarized in Table 2.3.2

TABLE 2.3.2 FUNCTIONAL ROLE(S) OF THE SELECTED ADMINISTRATIVE DEPARTMENTS IN THE SECOND LEVEL INSTITUTIONS		
Selected Departments	Abided Ordinance(s)	Functional Roles
IRD	Ordinances of Betting Duty Business Registration Estate Duty Hotel Accommodation Tax Inland Revenue Stamp Duty Tax Reserves Certificate	<ul style="list-style-type: none"> <li>◆ Tax Collection (Direct and Indirect Tax) - nearly 60% of the total Government revenue. Revenue from these sources was collectively called internal revenue. (Hong Kong government, Various Years (b) - 1993, p. 51.)</li> <li>◆ Supervision by the Commissioner of Inland Revenue</li> </ul>

R&V	Derived the authority (rates charging) from the Crown Leases Ordinance	<ul style="list-style-type: none"> <li>◆ “The Rating and Valuation Department is responsible for assessing and collecting rates which are levied on landed property at a fixed percentage of its ratable value. The revenue raised helps finance the various public services provided by Urban Council and Regional Council, as well as providing a stable and reliable revenue stream to the Government” (Hong Kong Government, Various Years(b)-1993, p. 52)</li> <li>◆ “In 1946 and 1947, the Department took an additional task connected with stamp duty in the urban areas and rent control respectively. Over time, it has become solely responsible for the administration of rent control matters as well as estate duty and stamp duty work for the whole territory.” (Hong Kong Government, R &amp; V, 1997, p. 2)</li> <li>◆ “Since 1995, the Department has taken over the rates billing and accounting functions from the Treasury which remains responsible for the actual collection of the rates.” (Hong Kong Government, R &amp; V, 1997, p. 2)</li> <li>◆ Also referring to section 2.1</li> </ul>
AD	Audit Ordinance	<ul style="list-style-type: none"> <li>◆ Serving as the external auditor for the accounts of the Government under the supervision of the Director of Audit so, it is delegated with the authority to access the records of governmental departments and it is independent from any bureaus or persons</li> <li>◆ Responsible for supervising or to check the usage of public money and to see whether it was used according to the principle of ‘value of money’</li> <li>◆ Submitting an annual report to the Public Accounts Committee for further and closer examination of losses reported</li> <li>◆ Authority of the AD was distorted with the presence of a time-lag between its annual report submission and the operation of the annual budget exercise of the colonial government</li> </ul>
LD	1. Crown Leases Ordinance <sup>43</sup> 2. Crown Land Resumption Ordinance	<p>Headed by Director of Lands</p> <ul style="list-style-type: none"> <li>◆ Administering Crown Land Leasing,               <ul style="list-style-type: none"> <li>(i) Crown Lease Enforcement - Lease Renewal<sup>44</sup>, adjustment of land rents, returning of non-renewable land lease and responsible to turn the land back to the government when the lease expired. (Wu, 1983 &amp; Hong Kong Government, 19??, p. 5)</li> </ul> </li> <li>◆ Land Disposal. There were three ways of land disposal for the government. (Wu, 1983 &amp; Hong Kong Government, 19??)               <ul style="list-style-type: none"> <li>(i) Public Auction: sold the leases to the highest value bidder. Most the land in the colony is disposed of this way.</li> <li>(ii) Tendering<sup>45</sup>: Leases of Petrol Filling Stations, Kerosene Stores in housing estates, profit-making schools, cinemas, multi-storey car parks and land have sea frontage will be sold by tender. (Wu, 1984, p. 4)</li> <li>(iii) Private Treaty Grant: “Grants by Private are made by the Governor in respect of land to be used for certain public utilities and of educational, medical, religious and other charitable purposes, and certain low cost housing projects, subject to each case to a special recommendation from the Government department concerned. Private Treaty Grants at concessionaire rates is also made to industrialists and other employers in respect to comprehensive workers housing schemes. The premium charged may be nil in the case of non-profit making welfare projects, and may be one-third market value of housing schemes. (Hong Kong Government, 19??, p. 3)</li> </ul> </li> <li>◆ Lands resumption, surveying, valuation and resumption compensation under the delegated authority from the Crown Land Resumption Ordinance<sup>46</sup> (Chu, 1997d; Hong Kong Government, 19??, p. 5 Hong Kong Government, Various(b))</li> <li>◆ Managing the availability and suitability of resumed land for the development plans by coordinating with the Planning Dept., TDD, HA and the HS, etc.</li> </ul>



BD <sup>47</sup>	Buildings Ordinance <sup>48</sup>	<p>Headed by Director of Buildings</p> <ul style="list-style-type: none"> <li>◆ Approving all construction projects according to the Buildings Ordinance.</li> <li>◆ Controlling and Checking the standards of all the building developments in Hong Kong (standard of construction and the material uses) in order to ensure compliance with statutory standards of safety, health and environment in private buildings and building works.</li> </ul>
PD	1. Hong Kong Planning Standards and Guidelines <sup>49</sup> 2. Territorial Development Strategy (TDS) <sup>50</sup> 3. Port Development Strategy (PDS) <sup>51</sup> 4. Sub-Regional Development Strategies <sup>52</sup> 5. Town Planning Ordinance <sup>53</sup> & Statutory Plans <sup>54</sup> 6. Departmental Plans <sup>55</sup>	<p>Established in 1990 to take full responsibility of planning which was previously shared by the TDD and Town Planning Office. (Town Planning Office, which became the Planning Department in January 1989.) (Hong Kong Government, Various Years(b) - 1991, p. 208; Lai, 1993, p. 185; Hong Kong Government, Planning Department, 1997a)</p> <ul style="list-style-type: none"> <li>◆ Formulating, monitoring and reviewing urban and rural planning policies and proposals</li> <li>◆ Dealing with all matters relating to landuse planning at territorial<sup>56</sup>, sub-regional<sup>57</sup> and district levels<sup>58</sup>:</li> <li>◆ Executing the Town Planning Board in the preparation of statutory plans and making decisions on applications for planning permission under these individuals planning areas that out of the TDS and PDS.</li> <li>◆ "Review of Town Planning Ordinance, the Territorial Development Strategy, the non-metropolitan Development Strategies and the Hong Kong Planning Standards." (Hong Kong Government, Various Years(b) - 1991, p. 208)</li> <li>◆ "Follow-up Work on the Metroplan, the Rural Planning and Improvement Strategy, the Study of the Use of Underground Space, and the Port and Airport Development Strategy. (Hong Kong Government, Various Years(b) - 1991, p. 208)</li> <li>◆ Serving as a coordinator between the LDC and other government departments.</li> <li>◆ The District Planning Office of the Planning Department worked closely with the Development Office of the TDD to prepare statutory plans in new towns.</li> </ul>
TDD	---	<p>Formed in 1986 (prior 1986, its name was the New Territories Development Department) which was set up in 1973 to implement the New Town Programme, the main objective of which at that time was to provide land in the New Territories for public housing programme. Since 1986, TDD has also extended its responsibility to cover the new major developments in the urban area.</p> <p>Main Roles (currently) :</p> <ul style="list-style-type: none"> <li>◆ Responsible for lowest tier of planning - action planning, under the planning framework derived by the PD               <ol style="list-style-type: none"> <li>1. Development of New Towns and Rural Townships &amp;</li> <li>2. New Major Urban Development Areas.</li> </ol> </li> <li>◆ Secondary Role:               <ol style="list-style-type: none"> <li>1. Coordinating various government department and utility companies to ensure that all the essential infrastructure and facilities are in place at the intake of population for each development package</li> <li>2. Overseeing engineering design and construction works on land formation and infrastructure on the development areas</li> </ol> </li> </ul>
HGD	---	<ul style="list-style-type: none"> <li>◆ Mainly responsible for highway development projects</li> </ul>
HA & HD	Housing Ordinance(s)	<ul style="list-style-type: none"> <li>◆ Responsible for initiating and managing public housing projects which is largely financed through 'Development Loan Fund'</li> <li>◆ Its land for public housing project and the rate of construction and the direction of housing provision are determined by the TDD, the Financial Secretary and the HB</li> </ul>



LDC	LDC Ordinance	<ul style="list-style-type: none"> <li>◆ Urban renewal but operating in prudent commercial principle</li> <li>◆ Prior 1987, the urban renewal was responsible by the Government itself.</li> <li>◆ Its activities have to be approved by the secretary of Lands and Works, the Town Planning Board and the Governor in Council</li> </ul>
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Sources:

1. Information for IRD were complied from the (1) 'Homepage of Inland Revenue Department' by Hong Kong Government, Inland Revenue Department (1996); (2) 'Hong Kong Year Book 1993' by Hong Kong Government (Various Years (b) - 1993)
2. Information of R&V were complied from (1) *Interview Report Six: Rating and Valuation Department of the Hong Kong Government.* (Chu, 1997e); (2) 'Hong Kong Year Book 1993' by Hong Kong Government (Various Years (b) – 1993) & (3) 'Homepage of the Rating and Valuation Department.' by Hong Kong Government, Rating and Valuation Department (1997).
3. Information of LD were complied from (1) *Interview Report Five: Lands Department of the Hong Kong Government.* (Chu, 1997d); (2) 'A Simple Guide to Crown Land Transactions.' by Hong Kong Government (19??); (3) 'A High Land Price Policy in Hong Kong? A Preliminary Study.' by C. L. Wu (1983); (4) *Hong Kong Year Book* by Hong Kong Government, Various Years(b); (5) *The Land Tenure System in Hong Kong and Its Implications on Valuation - [Continued]* by Thomas Ho (1985), p. 8; (6) 'Development Appraisal of Land in Hong Kong' by Ling-hin Li (1997).
4. Information of BD were complied from (1) 'Hong Kong Year Book' by Hong Kong Government, Various Years(b); (2) 'Land Use Planning in Hong Kong.' by Roger Bristow (1984) (3) *The Land Tenure System in Hong Kong and Its Implications on Valuation - [Continued]* by Thomas Ho (1985); (4) 'Development Appraisal of Land in Hong Kong' by Ling-hin Li (1997), p. 17.
5. Information of PD were complied from the (1) 'Homepage of the Planning Department' by Hong Kong Government, Planning Department (1997); (2) 'Land-Use Planning In Hong Kong' by Roger Bristow (1984); (3) 'Hong Kong Year Book 1991' by Hong Kong Government (Various Years(b)- 1991); 4. 'Urban Renewal and the Land Development Corporation.' By Lai Wai-chung (1993); (4) 'Pamphlet: Planning with Vision: An Exhibition about Town Planning and Development in Hong Kong.' by Hong Kong Government, Planning Department (1997a); (5) 'Pamphlet: Hong Kong - City with Vision: Metro Area and Restructuration.' by Hong Kong Government, Planning Department. (1997b); (6) 'Pamphlet: Hong Kong - City of Vision: South East Kowloon Development.' by Hong Kong Government, Planning Department. (1997c); (7) 'Pamphlet: City of Vision - Airport Core Programme - Meeting the Challenge of the 21st Century.' by Hong Kong Government, Planning Department. (1997d)
6. Information for TDD were complied from (1) 'Homepage of the Territorial Development Department' by Hong Kong Government, Territorial Development Department (1997); (2) 'Interview Report: Construction Review and Outlook 1987-88' by The Research Department, Shui On Co. Ltd. (1988e).
7. Information of Highway Department was complied from 'Hong Kong Year Book 1987' by Hong Kong Government (Various Years (b)- 1987)
8. Information for HA & HD were complied from (1) 'The Government and Politics of Hong Kong' by Miners (1995) and (2) 'Hong Kong Year Book' by the Hong Kong Government (Various Years) and (3) 'Housing' by Lau (1994)
9. Information for LDC were complied from the Annual year of the LDC (1988-1996)

## 2.4 INSTITUTIONAL-SETTING IN THE FIRST LEVEL INSTITUTIONS AND THE SECOND LEVEL INSTITUTIONS

### 2.4.1. Institutional-Setting of the First Level Institutions

#### (a) Content of the Institutional-Setting

There is high resemblance in the public finance principles of various Financial Secretaries, from Haddon-Cave's in the 1970s to Donald Tsang in 1990s.<sup>59</sup> Their public finance principles are respectively summarized in Table 2.4.1A and 2.4.1B.

**TABLE 2.4.1A SIX REQUIREMENTS OF TAX SYSTEM BY HADDON-CAVE**

- a. The tax system should help generate sufficient recurrent revenue to finance a major proportion of a given level of total expenditure and to maintain fiscal reserves at a satisfactory level;
- b. The tax system is as neutral as possible as regards the internal cost/price structure, the supply of human effort and private investment decisions;
- c. The laws governing the tax system are adopted from time to time to make them compatible with changing commercial policies
- d. Each and every levy is simple and easy (and therefore inexpensive) to administer for both the Government and the taxpayer, and does not encourage evasion.
- e. The tax system is equitable as between different classes of taxpayers or potential taxpayers and between different income groups; and
- f. Exceptionally, the tax system is capable of being used to achieve non-fiscal objectives when necessary.

Sources: (1) Hong Kong Government (Various(a) – 1978) ; (2) Tang (1996a)

**TABLE 2.4.1B SEVEN PRINCIPLES / SEVEN VIRTUES FOR THE COLONIAL GOVERNMENT TAXATION SYSTEM BY DONALD TSANG IN 1995/96 BUDGET**

- a. Retain a low, simple and predictable tax regime;
- b. Raise sufficient revenue to meet known spending commitments;
- c. Maintain a rigorous ‘user pays’ system for setting fees and charges so as to keep tax rates low;
- d. Keep adequate fiscal reserves to provide a cushion against future uncertainties;
- e. Combat tax avoidance and evasion;
- f. Provide concession where most needed; and finally,
- g. Minimize the inflationary impact.

Source: Tang (1996a)

What can be generalized from the principles is that the institutional practice of public finance consists of low and simple tax regime and adequate fiscal reserve. Budget guidelines were made according to the policy direction of the colonial government. Three adjustments of the budget guidelines are found in the past two decades. (1975/76, 1982/83 and 1986/87) (Tang, 1996)

#### **(b) Historical Root of the Institutional-Setting**

In the course of colonial history, two factors pathed the colonial government to rely on the Hong Kong capitalist to maintain sufficient government revenue, namely, insufficient natural resources endowment and the governing principle of not generating financial burden to the mother country. The financial dependency rendered the colonial government weak in their bargaining power with the capitalist in public finance arrangement. It



consequently pushed the colonial government to derive various conservative budget principles to fit into the request of the capitalist.

The origin of conservative public finance principles can be traced back to the tax conflicts of the colonial government and the local capitalist in the 19<sup>th</sup> century. (who were mostly British and European businessmen, otherwise known as ‘hongs merchant’<sup>60</sup>) (Chiu, 1994; Chow, Chan and Kuk, 1992; Hong Kong Government, 1977; Rabhuska, 1976; Rear, 1972; Tsang, 1995; Yu and Lau, 1994; Zhou, 1992) At that time, the colony was in a financial deadlock as it had to finance for large-scale public works, devalue silver and the contributed military expense of the mother country. It aroused great reaction from the capitalist. The capitalist then threatened the government to reduce government expenditure, and demanded for having elected representative in the Legislative Council afterward so as to put lease on the state’s power to tax and spend. (Chiu, 1994) Eventually, the capitalist won over the colonial government and the colonial government made concession to the capitalist in the form of institutionalizing conservative budget principles, namely balanced budget and gradual increase of government expenditure into the British colonial government framework. (Chiu, 1994; Lau, 1997) The sacrifice of the British government became “a firm commitment to a conservative financial policy, aiming at minimizing the burdens of government on the bourgeoisie.” (Chiu, 1994, p. 27)



## **2.4.2 Institutional-Setting for the Second Level Institutions**

### **(a) Content of the Institutional-Setting**

The institutional setting of the second level institutions is defined by its inherent subordinated position and their functional role in the government bureaucracy. Their subordinated position and their role in policy implementation subsumed them under the budgetary decisions of the policy actors. (See Section Table 2.2C) These roles were also affected by their inter-departmental budget relations.

### **(b) Historical Root of the Institutional-Setting**

The colonial history of Hong Kong shaped the bureaucratic institutions, which were modeled after the British colonial system. In turn, the administrative level of the colonial government was institutionally made responsible for policy implementation, and was situated in a subordinated position. (Miners, 1995)

Furthermore, bureau-societal relations were underdeveloped as a result of colonialism. It was partly the result of selective co-optation of pressure groups into the government consultation system. For instance, the People's Council of Public Housing had been selectively excluded from the housing and land consultation system. (Chu, 1997a). The development of civil society and hence the bureau-society institutions were paralyzed. This enabled the policy actors to maintain an upper hand in the policy decision and shielded them from societal pressures.

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- <sup>18</sup> 'Corporate Profits tax' is tax which charged on corporate profit derived Hong Kong and the standard rate is 15%, where dividends were not subjected to tax. (Wu, 1977, p. 21) "Under the Inland Revenue Ordinance, profits tax shall be charged to the following circumstances: a. the persons carries on a trade, profession or business in Hong Kong; and b. there are profits from such trade, profession or business and such profits arise in or derived from Hong Kong. We [both the colonial government and the government of the HKSAR] adopt a territorial space principle. Only income that has a source in Hong Kong is taxable here. Income sourced elsewhere, notwithstanding that it is no tax on capital gains or dividends. Not do we have an interest tax . . . The current [up to 1997] standard corporate profits tax rate is 16.5%. The standard profits tax rate for an incorporated business is 15%." (Finance Bureau, HKSAR., 1997, pp. 1-2) Also, "profits tax is our [here refers to both the colonial government and the government of the HKSAR] largest source of revenue source . . . It contributed on average some 25% of total Government revenue each year over the past decade. Our profits tax receipts for 1996/97 were about \$50 billion, or 24% of total Government revenue for the financial year. A single percentage point change in the standard corporate profits tax rate would result in a revenue gain/loss of \$1.8 billion in 1998/99 and \$10.8 billion cumulatively over the medium term forecast period up to 2001-02." (Finance Bureau, HKSAR, 1997, p. 2)
- <sup>19</sup> "Property tax was charged on the owner of land and / or buildings at the standard rate (15%) and 80% of the ratable value of the land and buildings . . . exceptions: 1) Properties whose rents were restricted by references to those payable before World War II were charged at half of the standard rate. 2) Owner-occupied houses for residential purposes were exempt (but mortgage interest was not deductible) 3) If any property was unoccupied for one or more entire months, no tax was charged for such a period. 4) Corporations were exempted form the tax for any land and / or buildings they owned, as the income was taxed under the corporation profits tax." (Wu, 1977, p. 23)
- <sup>20</sup> "Interest tax was charged at source at the standard rate, but was exempt 1) where the interest rate did not exceed 3.5% per annum, or 2) where the interest was paid to bank or corporation in Hong Kong." (Wu, 1977, p. 23)
- <sup>21</sup> "Salaries tax was charged on salaries, wages and pension arising in or derived from Hong Kong . . . Housing supplied free by the employer was valued at 7.5% of the income of the employee, while holiday passages granted by the employer were not treated as income. But the total salaries tax charged on a person could not exceed an amount equal to 15% on the whole of his income chargeable to salaries tax before deducting allowances." (Wu, 1977, pp. 24-25)
- <sup>22</sup> "Estate Duty was levied on all property passing on death . . . The main exemption was: 1) Property situated outside in Hong Kong. 2) Gifts inter vivid made three years or more before death, or in the case of gifts to charity, one year or more before death; and gifts on consideration of marriage. 3) Estate not exceeding \$200000." (Wu, 1977, pp. 26-27)
- <sup>23</sup> "Entertainment tax was charged on admission to live entertainment, e.g. football matches and performance in nightclubs, and on admissions to cinemas and to horse racing." (Wu, 1977, p. 105)
- <sup>24</sup> "The bets and sweeps tax was levied on totalization bets and cash sweep tickets for horse racing." (Wu, 1977, p. 105)



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- <sup>25</sup> There is no general tariff in Hong Kong throughout the colonial governing. Excise duties are imposed on some commodities, such as liquor, tobacco, hydrocarbon oils and proprietary medicine, toilet preparation, cosmetics. These excise duties are subjected to adjustment from each financial year and financial year. Its implication is beyond the scope of this thesis.
- <sup>26</sup> "Rates were introduced as early as 1845 three years after Hong Kong was ceded to the British. The proceeds were then earmarked the upkeep of a police force. Even today the revenue from this source is still intended to cover the cost of police, water, street lighting, fire prevention and similar urban services." (Hsia and Chau, 1978, p. 159) In short, rates now simply serves as one source of government revenue and is an important source of revenue of two municipal councils. And "Rates are charged on the ratable value of any 'tenement' (i.e. any land building or part of a building) held as a separate tenancy. The ratable value, which is determined by the Commissioner of rating and Valuation annually or at longer intervals, means the rent at which any tenement may be expected to let on the assumption that the tenant pays to the rates and the landlord pays the Crown rent and the costs of repair and insurance. When a new building is put up, the Commissioner makes an 'interim valuation' of the tenements involved, and these are then entered into the existing 'valuation list', i.e. the list of all tenements chargeable to rates. Similarly when a building is structurally altered or pulled down, an interim valuation is carried out and amendments to the valuation list are made accordingly. Exemption from rates include places of public worship, government property, agricultural land, and several urban areas in the New Territories." (Wu, 1977, p. 78)
- <sup>27</sup> "Stamp duties are levied on a wide variety of documents, such as agreements, assignment, bills of exchange, contract notes, import and export declarations, insurance policies, shares and marketable securities, etc." (Wu, 1977, p. 90)
- <sup>28</sup> Such segment of tax mainly come from First Registration tax, business registration fee and various fees of public services provision. (Wu, 1977, p. 105)
- <sup>29</sup> It mainly come from crown land sales. Before the reorganization of the Housing Authority, resettlement housing rent, low cost housing rent and Housing Authority rent also served as a portion of this segment of government revenue.
- <sup>30</sup> "The Capital Works Reserve Fund finances the Public Works Programme, land acquisitions, capital subventions, major systems / equipment and computers. When the Sino-British Joint Declaration came into effect on 37 May 1985, the fund was restructured to enable the premium income from land transactions to be accounted for in accordance with the arrangements in Annex III of the Joint Declaration. The income of the fund is derived mainly from land premium." (Census and Statistics Department, Hong Kong Government, 1991, p. 117) It comprises of works account for the finance of public works programme, suspense account for the premium income of land transaction and reserve account. (Tang, 1996b)
- <sup>31</sup> "The Capital Investment Fund is used to finance the Government's investment in public bodies where are no part of the Government structure itself, such as equity injections in the Mass Transit Railway Corporation and capital investment in the Hong Kong Housing Authority. Its income is derived mainly from interest and dividends investment and repayments." (Census and Statistics Department, Hong Kong Government, 1991, p. 117)
- <sup>32</sup> "The Loan Fund is used to finance schemes of Government Loans, such as housing loans and student loans. The main sources of this income are loan repayments and interest." (Census and Statistics Department, Hong Kong Government, 1991, p. 117)



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- <sup>33</sup> Exchange Fund was established in December 6, 1935. Once issuing bank notes, authorized bank need save identical amount of foreign currency into the Exchange Fund so as to get the Certificate of Indebtedness before issuing and Hong Kong currency. The Certificate of Indebtedness is interest-free, but the Exchange Fund can use those save-in foreign currency to earn interest which can be used to stabilize the exchange rate of Hong Kong dollars. (Tang, 1992b)
- <sup>34</sup> The operation of these funds will not be analyzed in detail as it is beyond the scope of this dissertation.
- <sup>35</sup> The affordability index of home purchasers is complied to measure the effect of changing prices, mortgage rates and household income on the ability of purchasers to afford a mortgage. The index is derived by means of dividing the monthly mortgage repayment by the median household income for the same quarter. The model mortgage repayment is based on a 20-year mortgage on 70% of the purchase for a 50.0 square metre flat. The interest rate adopted in the model mortgage is the weighted arithmetic mean of Heng Sang's mortgage rates for domestic properties effected during their quarter. The purchase price is estimated by applying the average price (adjusted by reference to the price indices) for a class A domestic unit which is based on an analysis made of transactions scrutinized by R&V for stamp duty purposes. The median household income is de-seasonalized to take account of the seasonal fluctuation, e.g. bonus and double salary payments around the Lunar New Year. (Chu, 1997e)
- <sup>36</sup> In fact, the flat price did slow down for 25% to 35% after the introduction of speculation curbing policy. However, the property price had increased by 200% from 1991 to 1994. Also, the average price of a small and medium-sized flats has risen for 10 times from about HK\$600 per square foot in 1984 to HK\$ 6000 per square foot in 1994. (Lai, 1994) More importantly, the government had declared the speculation issue to be pacified and hence terminated all speculation curbing measures two days (Aug. 24 1996) after the developers were found like to ally to pull down the crown land price. In other words, the colonial government seems to have traded off the interest of the public so as to maintain a better level of land sale revenue and in return the interest of the developers.
- <sup>37</sup> "The regulations dated back to 1837, and serve as 'directions to Governor for general guidance given by the Crown through the Secretary of State for the Colonies,' especially in financial and administrative matters . . . The colonial regulations specified expenditure of approved funds, clarified how and when variations in the approved estimates could be allowed, and instructed local officials on the submission and auditing of public accounts." (Rabushka, 1979, p. 34)
- <sup>38</sup> The Governor, with the enactment of the Letters Patent and the Royal Instructions, had been made to hold responsible for all formal terms of power of the colonial government. He was the head, the commander-in-chief of the colony. (Duncanson, 1988; Harris, 1983; Miners, 1995; Perry & Tang, 1991).
- <sup>39</sup> The Secretariat(s) of various dimensions of policies had been institutionally made to play the policy co-ordination role and they were the main advisers for the Governor. (Harris, 1983) Empirically, the secretariats did not only act as administrators but also the policy making officials of the colonial government. (Cheung, 1990; Harris, 1978; Lam & Lee, 1993 & 1994)



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- <sup>40</sup> According to Interviewee C, the guidelines include: (1) those which were technical in nature (accounting and calculation of different expenditure item, and budget guideline); (2) those which were budgetary in nature (estimated recurrent guideline, as well as (3) the portion of public money that could be used in each policy branch. (Chu, 1997)
- <sup>41</sup> Such a priority setting mechanism seems very likely operate for a very long time but which has not been stated clearly constitutionally. As said by Interviewee B, “the colonial government would already have policy commitment collection exercise before the annual budget-making exercise. The colonial government would first observe whether policy branches or departments had any change of their policy priority or some new policy ideas. If the answer is positive, suggestions will be submitted to the top senior of civil servants for detail examination. Approved project would be granted with higher priority of implementation during the annual budget exercise. However, the final say was still vested in the hand of the Star Chamber of the colonial government. (Chu, 1997)
- <sup>42</sup> Finance Branch’s government revenue would be taken as a reference in determining these priorities. Prior 1987, economic forecast was responsible by the Economic Analysis Unit, which was established the autumn of 1972. Central Statistical Department had been re-established in 1968 to conduct annual economic review and forecast. The end products were ‘*Monthly Digest of Statistics*’ and ‘*Annual Estimates of the Gross Domestic Product*’ and annual publication of the ‘*Economic Background to the Budget*’. (Hong Kong Government, Various Years(a) - 1974; Hong Kong Government, Various Years(a) - 1976) From 1987 onwards, after experiencing three deficit years and realizing the falling capital revenue in the coming days for the colony, the colonial government introduced a ‘Five-year Medium Range Forecast of expenditure and revenue’. It was made through a series of computer based models to derive forecast for Government finances for five years ahead. (Hong Kong Government, Various Years(a) – 1986) The forecasts consolidated the financial position of the colonial government in terms of its ‘General Revenue Account’ and all its ‘fund’, except the Lotteries Fund. The forecast was made to provide estimations of government expenditure changes and revenue projections. (Hong Kong Government, Various Years(b) - 1987)
- <sup>43</sup> “In Hong Kong, the potential of the development of a piece of new land is governed by the positive and restrictive covenants in the lease. Planning requirements, Buildings Ordinance provisions, fire hazard prevention, traffic regulations and provision of infrastructural facilities adjoining the land, are all stipulated in the lease in great detail . . . If a lease is restricted, a cash premium is required to be paid to the Crown for modification of the lease before the land can be redeveloped to the maximum potential and value. The amount of premium would be the full difference between the open market value of the land with, and without, the restriction to be modified. Usual restriction covenants in Crown leases are: (a) User- specifying, for example, residential use only or industrials use only. (b) Height - specifying the maximum height above Planning Department allowed. (c) Type of Building - for example, restricting development to ‘detached’ or semi-detached residences’. (d) Control of Development - ‘Rate and Range’ clause or ‘Design, deposition and height’ clause. (e) Offensive-trades’ clause.” (Ho, 1985, p. 8)
- <sup>44</sup> “A number of 75 years non renewable leases issued during the last century expired and due to expire in the near future. It is the practice to grant new releases in respect of these lots subject to the payment of a premium, reassessment of the Crown rent and to certain conditions regarding development.” (Hong Kong Government, 19??, p. 5)



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- <sup>45</sup> "The general policy is that a public tender is called for if (a) the user is strictly defined and the sale of is unlikely to attract general interest; and (b) the government wishes to examine in advance detailed proposals for the development of particular lot with an usual user restriction, to ensure that the best form of development is obtained and that the development meets with all government requirements . . . An important type of tender is the 'Letter A' and 'Letter B' tender system in the New Territories. When the government requires land for development, it gives the lessee an opportunity to voluntarily surrender his holding in exchange for the right to be granted Crown Land in future." (Wu, 1984, pp. 4-5) Regarding the Letter A and Letter B had issued in bulk which outweigh the land supply of the government potentially and so which had been stopped to issue in 10 the march, 1983. (Wu, 1984, p. 6)
- <sup>46</sup> "The Crown Lands Resumption Ordinance gives powers of compulsory purchase of leased land for public purpose. The normal practice where land is required for such a purpose is for the Superintendent of Crown Lands & Survey to make a cash offer to the lessee in respect of the site. Failing agreement, the land is resumed under the Ordinance and the Land Tribunal will decide the amount of compensation to be paid." (Hong Kong Government, 19??, p. 5)
- <sup>47</sup> In 1993, Building Ordinance Office was separated from the Lands and Buildings Department. As a result Buildings Department was established. (Hong Kong Government, Various Years(b) - 1994)
- <sup>48</sup> "This Ordinance [Building Ordinance (Chapter 123)], with its many regulations, covers a very wide field, ranging from the internal and external design, height, and building density to the structural requirements of a building. The Building (Planning) Regulation within this Ordinance limit the sizes of buildings in various circumstances, ensure reasonable amounts of light and air, provide for adequate means of access, and escape from fire." (Ho, 1986, pp. 8-9) The section relevant for the land domain is: "Section 16(1) of the Ordinance specifies the grounds upon which the Building Authority [now the BD] may refuse to approve plans submitted to him . . . 'the carrying of the building works shown thereon would contravene the provision of this Ordinance or of any other enactment, or would contravene any approved or draft plan prepared under the Town Planning Ordinance; the carrying out of building works thereon would result in a building differing in height, design, type or intended use from buildings in the immediate neighbour or previously existing on the same site; in the case of building works to be carried out on a site which in his opinion ought to be provided with streets having adequate connection to a public street, he is not satisfied that such streets or will be provided . . . In Section 3(1) states that no balconies shall be permitted to project over a street, unless exempted by the Building Authority [now the BD]. By a Circular Letter to all authorized architects, the Authority has stated out no such exemptions will be granted in respect of any plans submitted after 31 March 1974; Section 42, the Building Authority may grant modifications of the requirements of the Ordinance, upon payment of prescribed fees. such modifications will be granted in special circumstances that have to be specified." (Roberts, 1975, pp. 20-21)
- <sup>49</sup> "This [Hong Kong Planning Standards and Guidelines] is a policy statement which sets out the criteria for determining the scale, location, site, requirements of various land use and facilities. It is used in the formulation of development strategies, preparation of town plans, drawing up planning briefs and scrutiny of development proposals." (Hong Kong Government, Planning Department, 1997)



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- <sup>50</sup> “[TDS] provides a broad planning framework for preparation of sub-regional and district plans as well as integrating public policies on major land and infrastructure development.” (Hong Kong Government, Planning Department, 1997)
- <sup>51</sup> It is a plan which integrated the development of new port facilities, new international airport and related infrastructure urban development. (Hong Kong Government, Planning Department, 1997)
- <sup>52</sup> “Within the framework of the TDS, sub-regional development strategies are prepared to translate the territorial goal into more specific planning objectives for the five sub-regions of Hong Kong . . . Each sub-regional development strategy normally comprises a series of plans and statements which provide a framework for more detailed district planning and work programmes. The NWNT and SWNT development strategies completed in the 1980s for the sub-regions in the New Territories and now under review. The outcome of the reviews for NWNT and SWNT will be available in the late 1996. The review for the NENT is expected in the mid-1996. At this stage, a review for the SENT is considered unnecessary. The ‘Metroplan Selected Strategy’ was approved by the Governor in Council in September 1991 to provide a planning framework for developing and upgrading the Metro Sub-region, which includes Hong Kong Island, Kowloon, Tsuen Wan and Kwai Tsing. On the basis of the Metroplan, development statements have been prepared to provide a planning framework to translate the broad Metroplan concepts into specific district planning objectives and plans of action. To date, development statements for West Kowloon, Southeast Kowloon and Tsuen Wan-Kwai Tsing have been completed. The Development Statements of Hong Kong Island West and Central and East Kowloon are expected to be available by the end of 1996.” (Hong Kong Government, Planning Department, 1997)
- <sup>53</sup> “The Town Planning Ordinance (No.20 of 1939), as amended from 1974 . . . It provides two principles planning mechanism: the preparation of statutory plans, and the approval of development differing from those statutory plans within certain specified limits. The Ordinance provides for the appointment of a Town Planning Board which is responsible for the systematic preparation of draft plans for the future layout of such existing and potential urban areas as the Governor may direct as well as for the types of building suitable for erection therein.” (Bristow, 1984, pp. 151-152) “The [Town Planning] Ordinance provides the establishment of the Board, which may prepare and publish draft plans for the layout of any area. These draft plans may show or make provision for: ‘(a) streets and railways and or the main communications; (b) zones and districts set apart for use of residential, commercial, industrial or other specified uses; (c) reserves for Government, institutions or community purposes; (d) parks, recreation grounds and similar open spaces; (e) zones and districts set apart for undetermined uses, and any matter whatsoever may be shown or provided for or specified in or in respect of the plans by means of such diagrams, illustrations, notes and descriptive matter shall be part of the plans.” (Roberts, 1975, p. 37)
- <sup>54</sup> “They [Statutory Plans] are prepared and published by the Town Planning Board under the provision of the Town Planning Ordinance. There are two types of statutory plans: ‘Outline Zoning Plans (OZPs) show the proposed land uses and major road system of individual planning scheme areas . . . ‘Development Permission Areas (DPA) Plans’ are prepared after the enactment of the Town Planning (Amendment) 1991 for areas not previously by OZPs. The purpose of DPA plans is to provide interim planning control and development guidance for selected areas pending the preparations of OZPs.” (Hong Kong Government, Planning Department, 1997)

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- <sup>55</sup> “They [Departmental Plans] are administrative plans used mainly within the government. They generally comprise outline development plans (ODP) and layout plans and are prepared within the framework of the TDS, sub-regional development strategies and the statutory plans.” (Hong Kong Government, Planning Department, 1997)
- <sup>56</sup> Territorial Planning - Strategic Planning Guidance was largely derived from the Hong Kong Outline Plans and it was written in 1983. Its central theme is to allow growth in the urban areas, but accelerate growth in the new towns.
- <sup>57</sup> Sub-regional Planning - “the only method of sub-regional planning normally existing in Hong Kong was the non-statutory planning guilds prepared for certain areas in the New Territories . . .” (Bristow, 1984, p. 176) Layout Plans – “are detailed departmental plans . . . for small areas usually contained within the large-scale outline development plans . . . Often they are described with the physical implementation of actual development scheme.” (Bristow, 1984, p. 191)
- <sup>58</sup> District Plans were ‘outline zoning plans’ that indicated the proposed predominant land-use pattern and the major road framework of the area to a small scale. (Bristow, 1984)
- <sup>59</sup> The colony was suffering serious financial stringency in the early 1980s, the Financial Secretary, John Bremridge did not place the discussion of budgetary principles as a core part of his budgets and the principles had only been placed at the appendix. (Tang, 1994) In the early 1990s, the Financial Secretary, Macleod, had placed the budgetary principles back to the main body of the budget and which are similar to those of the Haddon Cave. (Au Yeung and Ho, 1992; Tang, 1994)
- <sup>60</sup> “Further information of ‘hongs’ and European & Britain merchants, one can refer to *The Taipans: Hong Kong Merchant Princes.*’ by Colin N. Crisswell (1991) and *Europe in China: the History of Hong Kong.*’ from the beginning to the 1882.’ by E. J. Eitel (1968).



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## **CHAPTER THREE:**

# **ANALYSIS OF FIRST LEVEL INSTITUTIONS**

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The effort of the colonial government to preserve the conservative approach to public finance is manifested in the trend of land supply and the taxation policy.

Concrete details of the hypothesis are as follows:

- (1) The policy actors would supply the crown land non-steadily by
  - i. increasing the land supply substantially in the general financially non-stringent period (1973/74-1981/82) and the identified financially stringent periods of 1973/74-1974/75, 1977/78-1980/81 and 1984/85- 1988/89.
  - ii. supplying the crown land in an unduly low amount in the general financially stringent period (1982/83–1994/95) and the identified financially stringent periods of 1975/76-1976/77, 1981/82- 1983/84, 1989/90-1993/94 and 1994/95.
- (2) Increasing the role of indirect tax and fees & charges in government extraction process rather than pushing up the tax rate Hong Kong even when tax burden inequality were found.

In what follows, I shall demonstrate the validity of the above two hypotheses chronologically. The manipulation of crown land leasing of the colonial government will go first (Section 3.1), followed by the demonstration of manipulation on the taxation system, fees and charges, indirect tax (Section 3.2).

### **3.1 CROWN LAND LEASING MANIPULATION**

The manipulation of crown land leasing can be shown in the official depiction (Section 3.1.1) and actual patterns of land sale (Section 3.1.2).

#### **3.1.1 OFFICIAL DEPICTION BY THE POLICY ACTORS**

Official depiction of the policy actors is typically represented by the '1983/84 *Budget Speech*' by Mr. J. H. Bremridge. Related paragraphs are as below:

“My own prize for misplaced zeal goes to those who seek an end to what they call Government’s high land price policy. Apart from the minor fact that there has never been such a policy, to suggest that it exists at this particular point in time when the budget is in serious deficit because of barely above formation costs involves a degree of capacity worthy of inclusion in the Guinness Book of Records . . . It was the improved supply of Government land to the market resulting from deliberate planning that was a major factor in ending the escalation of property prices, the baleful effects of which were increasingly obvious. I am no supporter of high prices for anything - only fair prices as normally determined by the market and not arbitrarily by bureaucrats.” (Hong Kong Government, Various Years-1983, p. 4)

Mr. Bremridge’s depiction of the government stance on crown land supply, like improving the supply of government land as deliberate planning to end the escalating property prices, indirectly shows that the policy actors had manipulated the land supply when the land and housing market was overheated.



Similar official position can be found in Mr. Donald Tsang's '1995/96

*Budget Speech*'. Related paragraphs are as below:

"We were urged to abandon an alleged high land price policy to increase the supply of land, and indeed to create a land bank so that we could respond more quickly to imbalances in supply and demand. This is precisely what these reclamations are intended to achieve. But let me assure Members that the wilder criticisms we hear are very wide of the mark. We have no intention whatsoever of reducing our magnificent harbour to a mere trickle, as some of the imaginative articles in our newspapers have suggested . . ." (Hong Kong Government, 1995, pp. 12-13)

Mr. Tsang had clearly pointed out that the colonial government had tackled the increasing land demand by reclamation. Reclaiming the sea to provide more land is, in fact, another preliminary demonstration of active land sale manipulation of the policy actors.

### 3.1.2 Temporal Land Sales Patterns

The higher annual average growth rate of land sale in period of 1973/74-1981/82 (31.4%) than the period of 1982/3-1994/95 (11.5%) preliminarily shows that the policy actors had increased the land sale during the period of general non-stringency and reduced the land sale amount in the period of general stringency. (Table 3.1.2)

**TABLE 3.1.2 DISPOSAL OF CROWN LAND\* FROM 1973/74 TO 1994/95**

Financial Year	Square Metre	Annual Land Sale Growth Rate (%)	Financial Year	Square Metre	Annual Land Sale Growth Rate (%)
1973/1974	166661		1982/1983	539116	-5.9
1974/1975	279874	+67.9	1983/1984	114560	-78.8
1975/1976	198264	-29.2	1984/1985	230271	+101.0
1976/1977	114701	-42.1	1985/1986	191484	-16.8
1977/1978	215163	+84.6	1986/1987	179050	-6.5
1978/1979	386210	+79.5	1987/1988	478535	+167.3
1979/1980	738772	+91.3	1988/1989	262763	-45.1
1980/1981	1402113	+89.8	1989/1990	159189	-39.4
1981/1982	573183	-59.1	1990/1991	271042	+70.7
			1991/1992	229166	-15.5
			1992/1993	207943	-9.4
			1993/1994	168481	-19.0
			1994/1995	247489	+46.9
<i>Average Annual Land Sale Growth Rate 1970/71 to 1981/82</i>		<i>31.4%</i>	<i>Average Annual Land Sale Growth Rate 1982/83 to 1994/95</i>		<i>11.5%</i>

Notes:

\* Land Supply here only includes both the urban and the New Territories of Hong Kong (by tender and auction)

Sources:

1. Data from Financial Year 1972/73 to 1980/81 was complied from 'A High Land Price Policy in Hong Kong? A Preliminary Study' Hong Kong: Department of Economics, University of Hong Kong.
2. Data from Financial Year 1981/82 to 1989/90 was complied from 'The Hong Kong Annual Digest of Statistics 1991' Hong Kong: Census and Statistics Department, Hong Kong Government.
3. Data from Financial Year 1990/91 to 1994/95 was complied from 'The Hong Kong Annual Digest of Statistics 1996' Hong Kong: Census and Statistics Department, Hong Kong Government.



Similar patterns can be found in other identified periods of financial stringency and non-financial stringency of the colonial government:

- (a) the successive increase in land sale growth rate in 1973/74 (25%) and 1974/75 (67.9%) preliminary shows that the policy actors had increased the land supply in the financially non-stringent period of 1973/74-1974/75.
- (b) the successive decrease in land sale growth rate in 1975/76 (29.2%) and 1976/77 (42.1%) preliminary shows the policy actors had decreased the land supply in the financially non-stringent period of 1975/76-1976/77.
- (c) the successive increase of land sale growth rate in 1977/78 (84.6%), 1978/79 (79.5%), 1979/80 (91.3%) and 1980/81 (89.8%) preliminary shows the policy actors had increased the land supply in the financially non-stringent period of 1977/78-1980/81.
- (d) the successive decrease of land sale growth rate in 1981/82 (59.1%), 1982/83 (5.9%) and 1983/84 (78.8%) preliminary shows the policy actors reduced the land supply in the financially non-stringent period of 1981/82-1983/84.

Although the pattern of land sales in the financially non-stringent period of 1984/85-1988/89 did not successively grow positively, the pattern of land supply is still supportive of Hypothesis 1. This is because the postponement in land disposal examination by the Land Commission.<sup>61</sup> in 1985 made the policy actors hold up most land sale

schedule. It led to the negative growth of land sale in 1985/86 and 1986/87 and the substantial increase of land disposal in 1988/89 (167.3%). (Hong Kong Government, Various Years(b), - 1987)

As to the financially stringent period of 1989/90-1993/94, there is negative growth of land supply in the annual average growth rate. For the financially stringent period of 1994/95, there was a lower rate of land leasing in general than all identified periods of financial stringency although the overall land supply of this sub-segment had grown by 46%.



## **3.2 MANIPULATION ON THE OPERATION OF COLONIAL TAXATION SYSTEM**

In general the validity of Hypothesis 2 is manifested in the preservation efforts of the low tax regime even when tax burden inequity were perceived by the policy actors. Operationally, these efforts refer to:

- (i) the adherence to the low tax regime and the unjustified reasoning of upholding it; (Section 3.2.1)
- (ii) the manipulation of the content of tax reform by the policy actors; (Section 3.2.2)
- (iii) the increasing in government revenue extraction through indirect tax, fees & charges and funds recovery in themes of financial stringency. (Section 3.2.3)

I shall explain these three operational preservation efforts.

### **3.2.1 Adherence of Low Tax Regime**

The consistent application of the partially progressive taxation system in the past few decades had institutionally made tax-rate for income from capital investment was lower than those from salary, bonus, subsidies and pension, hence imposing a heavier tax burden unto the middle income group. The upholding of the low tax regime undermined the interest of the middle income group. (Tang, 1988b; Tang, 1992; Wu, 1977)

The policy actors had argued that keeping low corporate profit tax would encourage investment and hence enhance the long-term progress of the manufacturing or even property investment. However, low labour cost and the absence of trade unions seemed very likely to be the more important considerations for investments in manufacturing industries either in case of foreign and local manufacturing industries. (Wong, 1977) The increasing

numbers of outward-processing industries in China from the mid-1980s serve as a clear indication. (Chen, Nyaw and Wong, 1991, p. 567; Federation of Hong Kong Industries, Industries and Research Division, 1990, p. 32) Moreover, economic and political stability, expansion of trade and pertaining growth of purchasing power seemed to be the more important considerations for property investment and servicing industries.

For foreign corporations especially the British firms, low profit tax rate would not serve as a strong incentive for investment. This is because, as stated by the Third Inland Revenue Ordinance Review Committee, these foreign corporations could enjoy tax credit from their mother countries and their profits earned from Hong Kong were not taxed until remitting back to their mother countries. Examples are the UK and the US corporations. (Finance Bureau of HKSAR, 1997; Hong Kong Government, Various Years(a) – 1978; Tang, 1988a; Tang, 1988c; Wu, 1977)

One may still argue that the policy actors did push up corporate profit tax for a few times in the past few decades. However, they are all short term response to the financial stringency and the tax rate would be lowered after the financial stringency of the colonial government was eased. Consequently, the line of low tax regime of the colonial government was still preserved. Evidences for these short-term increases of corporate profit tax are as follows:



- (a) In 1976/77, the Financial Secretary increased the standard rate by 0.5% in response to the 1973 oil crisis. However, he lifted it away once the crisis was eased in 1981/82. (Hong Kong Government, Various Years(a) - 1981)
- (b) In, 1983/84, the Financial Secretary increased the standard tax rate by +2% and he reduced it back to +15% (excluding the surcharge rate of +1.5%) (Hong Kong Government, Various Years(a) - 1988; Hong Kong Government, Various Years(a) - 1989; Hong Kong Government, Various Years(a) - 1990; Tang, 1990a)
- (c) In 1992/93, the Financial Secretary increased the corporate profit tax by +1%. However, he reduced it back to the level of 15% not until 1994/95. (Hong Kong Government, Various Years(a) - 1992; Hong Kong Government, Various Years(a) - 1994; Tang, 1992a)

### **3.2.2 Manipulation of the Content of Tax Reforms by the Policy Actors**

The policy actors manipulating the tax reform content by strategically setting the core components of low tax regime, such as partial progressive tax system and low corporate profit tax, not to be reviewed by the Inland Revenue Ordinance Review Committee. As a result, the low tax regime of the colonial government was shielded from actual evaluation and was preserved successfully. Concrete evidences can be found in every tax reforms in the last few decades as they are as follows:

- (a) the review committee was only allowed to evaluate the technical and administration aspects of the taxation system, rather than articulating the taxation principle and weaknesses of the colonial tax structure in the first three reviews after the post-war days. (Tang, 1988c; Tang, 1992a). These reforms happened in 1952, 1966 and 1986 respectively.
- (b) Similar incident happened in 1992/93. By the time, the Financial Secretary, Hamish Macleod, showed his objection to the LegCo councilor, especially the democratic camp, to conduct comprehensive tax reform on the grounds that such reform was a time-consuming process and would undermine investment incentive. Responding to the pressure from the democratic camp, Macleod stated that the colony needed to have tax reform, but only to widen the tax base by considering the introduction of wholesale sales tax. The issue of unequal tax burden was left untouched. (Tang, 1992a)



### 3.2.3 The Importance of Indirect Tax, Fees & Charges and Fund Recovery in Government Revenue Extraction

Elevating the role of indirect tax, fees & charges, as well as fund recovery in government revenue extraction were the preservation effort made by the policy actors in order to tackle financial stringency without abandoning the low tax regime or increasing the corporate profit tax. For instance,

- i. the Financial Secretary, John Bremridge, increased the indirect tax by 25 millions in 1982/83 and 5 millions in 1983/84 to tackle the financially stringency of the colonial government. By the time, as what has been depicted in chapter two, the government revenue was seriously hampered by the economic downturn in the early 1980s.
- ii. the Financial Secretary, Piers Jacob, substantially increased the indirect tax so as to finance 150 millions deficit in 1990/91. The budget deficit was caused by the huge expenses of the PADS. (Tang, 1990a; Tang, 1991)

There were also measures of institutionalization and the introduction of new price strategy on the fees and charges an funds recovery operation during the general financial stringency since the 1980s. This is manifested in the derivation of more concrete service taxonomy and pricing strategies in the Public Sector Reform in 1989 (Tables 3.2.3A) when compared with the 1970s (Table 3.2.3B).

TABLE 3.2.3A CHOICE OF PUBLIC SECTOR EXECUTIVE AGENCY AND PRICE STRATEGY					
Type of Services	Policy Require Arm's Length?	Pricing Strategy	Examples of Service Agency	Suggested Executive Agency	Notes
Core Services	No	Free	Law and Order	Traditional Department	Appropriate for traditional, often strategic, public services provided at not charge to the consumer.
		Partial or Full Cost Recovery	Issuing visas Vehicle registration	Trading Fund	Major areas within departments where partial or full cost recovery is sought through fees and charges. This will normally require a separate management / accounting identity for which the trading fund approach offers many advantages.
	Yes	Free or Partial Cost Recovery	Consumer Protection	Non-Departmental Public Body	There are many examples where a greater degree of freedom from government is required for purposes

		Full Cost Recovery	Urban Renewal	Corporation	of independence (e.g. Consumer Council) or to change management processes. (e.g., Hospital Authority. These bodies are all different forms of NDPBs.
<i>Support Services</i>	No	Full Cost Recovery	Data Processing	Trading fund Department	Where commercial viability is sought, a corporation is appropriate. The Land Development corporation is an example that allows commercial joint ventures with the private sector to be set up.
	Yes	Full	Property Services	Corporation	Support services should, where practicable are provided on a full cost recovery basis, so those managers of core services can be fully accountable for the resources they consumed.
<i>Commercial Services</i>	No	Partial or Full	Publications Tunnel operations	Trading Fund Department	The extent to which support services are given a degree of freedom the government requires determination in each case.
	Yes	Partial or Full	Public Transport	Corporation	Relatively small pockets of commercial activity that warrant a separate management / accounting identity but may not justify the cost disruption of moving into a fully arm's length organization.
					Trading services will, by their nature, be revenue earning, and so will normally benefit from a separate accounting and management structure. Whilst overall ownership is retained by the government, the corporation approach facilitates access to private sector resources, e.g. the KCRC and MTRC.

Source: Tang (1991)

**TABLE 3.2.3B CONSOLIDATION OF THE SIX CATEGORIES OF FEES & CHARGES IN THE LATE 1970S**

- a. Royalty-loaded fees are payments for permission to engage in certain activities and trade, viz.: licenses required for various regulated activities and trades (e.g. bank licenses). The level of fees imposed is not directly related to any costs that may be incurred in their regulation.
- b. Tax-loaded fees and charge are levied for services rendered or permission given. They are not set above the level necessary to recover the full costs specifically for the purpose of raising revenue.
- c. Cost related charges fall into three groups:
  1. those which do not cover the full cost (including the cost of capital) of the services provided, because this is a case on being borne by General Revenue;
  2. those which are designed to cover the full cost (including the cost of capital) of the services provided. These charges may, from time to time, be set at a level above that necessary to recover full cost to deter usage for policy reasons; and
  3. those that are not set for the public utility-type undertakings operated by the Government and which are designed to cover the full costs of corporation and to earn a required return on capital employed.

Sources: (Tang, 1991a,)



In the 1989 Public Sector Reform programme, the policy actors did not stop at spelling out the categorization and pricing of government service. The policy actors were able to delineate the main pricing direction and the corresponding operation mode of different kinds of government services. Such a clear categorization and concrete pricing strategies of government services were hardly present in the 1970s.

Although the colonial government had never publicly spelt out the financial contribution of the institutionalization of government services categorization and corresponding pricing strategies, they had provided a formalized means to extract revenue from fees and charge and fund recovery. Also, it helped the policy actors to unload the financial commitment towards various kinds of service provision. Concrete examples of increasing revenue from fees & charges are increase of school fees of tertiary education<sup>62</sup>, revision of fees & charges in social welfare provision<sup>63</sup>, as well as the application of user pay principle in medical service provision. Examples on domain of fund recovery include the privatization of public housing provision and urban renewal by restructuring the HA into a self-financed public corporation while the role of urban renewal was privatized by establishing the Land Development Corporation (LDC). The privatization of public housing provision and urban renewal made the colonial government cease its expenses on the 'Development Loan Fund' and the 'Transfer to Fund' respectively. (Background information for these two funds are in Section 2.1.2)

There were also corresponding adjustments of budget guidelines ratios to increase the proportion of revenues from the items of fees and charge and fund recovery. Both the upper limit of non-recurrent revenue usage and the lower limit of recurrent revenue usage were cancelled in financing the government expenditure since 1986/87. (Table 3.2.3C)

TABLE 3.2.3C BUDGETARY GUIDELINE RATIOS OF HONG KONG					
Guideline Ratios		Before 1975/76	1975/76 - 1981/82	1982/83 - 1985/86	1986/87 - 1994/95
<u>Recurrent Revenues</u> Total Expenditure	At Least	-	88%	77%	-
<u>Recurrent Expenditure</u> <u>Recurrent Revenue</u>	Not More Than	70%	80%	85%	-
<u>Surplus in Recurrent A/C</u> <u>Non-Recurrent Expenditure</u>	At Least	75%	60%	33%	-
<u>Recurrent Expenditure</u> <u>Total Expenditure</u>	Not More Than	-	70%	65%	50%
<u>Non-Recurrent Revenues</u> <u>Non-Recurrent Expenditure</u>	At Least	25%	20%	20%	-
Source: Tang (1996)					



## Notes

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- <sup>61</sup> Although the Land Commission had never delimited the land supply in 50 ha each year, but exceeding it, it does not mean its establishment did not pose financial stringency unto the colonial government as its effect should be manifested on the disposable government land sale revenue. Thus, it is reasonable to assume the Commission also accepts the to generate good land-sale revenue. If not, the PRC need not press the British colonial to establish the Land Commission and Land Fund so as to suspense keep up half of the land sale revenue for the HKSAR. (Wu, 1983, p. 9)
- <sup>62</sup> “In the 1985/86 Director of Audit Report emphasized that ‘The Deputy Financial Secretary had added his support to the need to develop a rationale for the level of school fees that should be charged, based either on a proposition of cost on the ability of the public to pay.’ In 1991, the Director of Education introduced the policy of increasing the tertiary education school fee. Under the policy decision, the school fee was increased substantially that the colonial government was able to capture +12.1% and +18% of school fees in 1993/94 and 1997/98 respectively”. (Tang, 1991, p. 30)
- <sup>63</sup> Detail of revision of fees & charges in social welfare provision can be found in the White Paper titled ‘*Social Welfare into the 1990s and Beyond*’. (Hong Kong Government, 1991)

## CHAPTER FOUR:

# ANALYSIS OF SECOND LEVEL INSTITUTIONS

This chapter analyzes the budget patterns of various departments of the second level institutions. The departments are classified into different agency types according to their administration functions using the scheme of classification derived by Dunleavy (1991). The different patterns of budgetary changes in the identified non-hostile and hostile periods are the result of the public finance tactics of the policy actors in dealing with economic upturns and downturns, namely through manipulating land supply and indirect tax. The hypotheses on the CB patterns of the different agency types are summarized in Table 4.

**TABLE 4 PROJECTED CB PATTERNS FOR THE STUDY DEPARTMENTS  
IN THE SECOND LEVEL INSTITUTIONS**

Agency Types	Hypotheses Referred	Projected CB Patterns
◆ Delivery	1a	◆ Greater CB growth in the general non-hostile period (1973/74-1981/82) than in the general hostile period (1982/83-1994/95)
◆ Regulatory	1b	◆ Downward CB development in the identified hostile periods (1973/74-1975/76, 1977/78-1980/81 and 1984/85-1987/88) relative to the corresponding identified non-hostile periods (1975/76-1976/77, 1982/83-1983/84 and 1988/89-1993/94 and 1994/95)
◆ Delivery / Trading,		
◆ Delivery / Trading	2	◆ Greater CB downward development than delivery and regulatory agencies in the general hostile period
◆ Taxing	3	◆ Lesser CB downward development than the delivery, the regulatory and the delivery / trading agencies in the general hostile period although it is also subjected the downward CB pressure as did by the agency types that related to Hypothesis 1a and 1b.
◆ Transfer / Regulatory	4	◆ the PELB & WB, TB and HB would also have a relative more constant CB growth in the general non-hostile period than in the general hostile period
	5	◆ the PELB & WB and TB would subject to lighter CB downward pressure in the general hostile period than the HB as they were more prominent in the planning of infrastructure development of the colony
◆ Servicing	6	◆ Fluctuated CB patterns in the whole study period in responding to service demand from its serving departments
◆ Trading	7	◆ Fluctuated CB patterns in the whole period in responding to its particular market situation

In addition to examining whether the selected departments have the projected budget pattern development, there would be two additional verifications so as to increase the reliability of the findings. They are:

- (1) to examine whether the CB patterns of the selected departments had corresponding budget contention by using their respective annual reports and interview data.
- (2) to examine whether the CB patterns of the selected departments resemble the departments of the same agency type according to Dunleavy's department classification in Chu (1995).

This chapter is divided into three sections. The first section examines hypotheses that are related to the delivery agency, the regulatory agency and the delivery / trading agency. (Section 4.1) The second one examines hypothesis that is related to the taxing agency. (Section 4.2) The third section examines hypotheses that are related to the remaining three agency types, namely the transfer / regulatory agency, the servicing agency and the trading agency. (Section 4.3)



# **4.1 BUDGET PATTERN(S) FOR THE DELIVERY AGENCY, THE REGULATORY AGENCY AND THE DELIVERY/TRADING AGENCY**

## **4.1.1 Budget Patterns of the Delivery Agency - LD**

In the case of LD, hypothesis 1a is verified in that its annual average CB growth rate in the general hostile period (11.0%) is lower than the one in the general non-hostile period (20.7%) as shown in Table 4.1.1A.

TABLE 4.1.1A ANNUAL CB GROWTH RATE OF THE LD FROM 1973/74 TO 1994/95					
Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	-	-	1982/83	134581	25.4
1974/75	25710	-	1983/84	132975	-1.2
1975/76	27557	7.2	1984/85	160574	20.7
1976/77	35181	27.7	1985/86	204211	27.2
1977/78	41944	22.1	1986/87	222323	8.9
1978/79	46342	10.6	1987/88	275971	24.1
1979/80	62808	35.5	1988/89	242542	-12.1
1980/81	89323	42.2	1989/90	266886	10.0
1981/82	107302	20.1	1990/91	282708	5.9
			1991/92	300414	6.3
			1992/93	355899	18.5
			1993/94	372952	4.8
			1994/95	389343	4.4
<i>Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82</i>		20.7	<i>Average CB Growth Rate in the General Hostile Period 1982/83 to 1994/95</i>		11.0

Source:  
'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c).)

- Notes:
- LD was established in 1974/75. Formerly, it was a division of the Public Works Department. In 1973/74, LD was known as Crown Lands and Survey Office. From 1982/83, it was renamed as Lands Department. In 1986/87, the LD was integrated with the Building Department. However, the LD and the Building Department was made to operate independently from 1993/94 onwards,
  - With understanding the LD itself approximately accounts for 85% of personal emoluments, 95% of departmental expanses and 97% capital expenses for the budget of Buildings and Lands Department before 1986/87 and after 1992/93, the CB and non-CB of the LD in the two periods were adjusted accordingly.
  - LD are found to have no Non-CB in the study period, except in 1982/83 (HK\$225,710) and in 1983/84 (HK\$ 564290).

TABLE 4.1.1B AVERAGE ANNUAL CB GROWTH RATE OF THE LD IN THE IDENTIFIED NON-HOSTILE AND HOSTILE PERIODS			
Non-hostile Periods	Annual Average CB Growth Rate (%)	Hostile Periods	Annual Average CB Growth Rate (%)
1977/78-1981/82	27.6	1975/76-1976/77*	17.5
1984/85-1987/88	33.2	1982/83-1983/84	17.1
		1988/89-1993/94	12.7
		1994/95	9.9

Source: The above data are adapted from Table 4.1.1A.

Notes:

\* The first non-hostile period is started from 1975/76 rather than 1973/74. This is because the LD was not established till 1974/75.

The validity of Hypothesis 1b is manifested in the higher annual average CB growth of the LD in the identified non-hostile periods than its identified hostile periods. As shown in Table 4.1.1B, the annual average CB growth rate of LD:

- (a) in 1982/83-1983/84 (17.1%) was smaller than it was in 1977/78-1981/82 (27.6%);
- (b) in 1988/89-1993/94 (12.7%) was smaller than it was in 1984/85-1987/88 (33.2%);
- (c) in 1994/95 (9.9%) was smaller than it was in 1988/89-1993/94 (12.7%).

The validity of Hypotheses 1a and 1b of LD is buttressed by the resemblance of CB pattern between the LD and the typical delivery agency, for instance, the Department of Health that was identified by Chu (1995) as its CB growth in the general hostile period is also lower in the general hostile period. The average annual CB growth rate of the Department of Health in the general hostile period was lower than it was in the general non-hostile period by 7.5%. (Table 4.1.1C)



**TABLE 4.1.1C ANNUAL CB GROWTH RATE OF THE DEPARTMENT OF HEALTH  
FROM 1973/74 TO 1993/94**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1975/76	323154	-	1982/83	1439900	36.9
1976/77	392389	21.4	1983/84	1648248	14.5
1977/78	437888	11.6	1984/85	1887854	14.5
1978/79	501032	14.4	1985/86	2187500	15.9
1979/80	604674	20.7	1986/87	2572781	17.6
1980/81	809852	33.9	1987/88	2894311	12.5
1981/82	1055730	30.4	1988/89	3395581	17.3
			1989/90	834801	-75.4
			1990/91	1065351	27.6
			1991/92	1236387	16.1
			1992/93	1390387	25.6
			1993/94	1574016	13.2
<i>Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82</i>		<b>18.9</b>	<i>Average CB Growth Rate in the General Hostile Period 1982/83 to 1993/94</i>		<b>11.4</b>

Sources:

1. 'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c).);
2. 'The Politics of Budgeting: A Case Study of Hong Kong Bureaucracy' by Chu (1995).

Hypotheses 1a and 1b is also verified by the budget contention of LD as it is shown in the ease of approval of LD's budget proposal before and after the introduction of Public Sector Reform in the late 1980s. Prior the introduction of the Reform, almost all budget proposals of the LD would be approved by the policy actors when the LD emphasized the importance of its expenses on land-sale revenue. However, after the introduction of the Reform, disapproval of budget proposals were found:

- (a) the appropriation proposal of Western Railway budget proposal had been cut down from HK\$92 million to HK\$29 million;
- (b) the appropriation of additional personal emolument expansion was made to operate as a temporary measure as the LD was required to cut it back after completing its land resumption projects;
- (c) the LD was reinstitutionalized and privatized during the general hostile period by establishing the LDC to take over the land resumption and reproduction in the urban.



## 4.1.2 Budget Patterns of the Regulatory Agencies – TDD & PD

### 4.1.2.1 TDD

In the case of TDD, hypothesis 1a is verified in that its annual average CB growth rate in the general hostile period (19.1%) is lower than the one in the general non-hostile period (5.4%) as shown in Table 4.1.1A.

<b>TABLE 4.1.2.1A ANNUAL CB GROWTH RATE OF THE TDD FROM 1973/74 TO 1994/95</b>					
<b>Financial Years</b>	<b>HK\$ '000</b>	<b>Annual CB Growth %</b>	<b>Financial Years</b>	<b>HK\$ '000</b>	<b>Annual CB Growth %</b>
1973/74	32379	-	1982/83	51890	-64.5
1974/75	39262	21.3	1983/84	59652	15.0
1975/76	36083	-8.1	1984/85	68667	15.1
1976/77	42457	17.7	1985/86	77358	12.7
1977/78	53663	26.4	1986/87	105100	35.6
1978/79	68183	27.1	1987/88	112215	6.8
1979/80	83285	22.1	1988/89	121006	7.8
1980/81	107225	28.7	1989/90	131618	8.8
1981/82	146332	36.5	1990/91	124023	-5.8
			1991/92	137660	11.0
			1992/93	163078	18.5
			1993/94	181356	13.1
			1994/95	173885	-4.1
<i>Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82</i>		<i>19.1</i>	<i>Average CB Growth Rate in the General Hostile Period 1982/83 to 1994/95</i>		<i>5.4</i>

Source:

'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c).)

Notes

1. Non-CB for this agency in 1973/74 is HK\$ 7.2 million; 1974/75 is 6.9 million; 1975/76 is HK\$ 7.5 million; 1976/77 is HK\$ 0.1 million; 1977/78 is HK\$ 1.1 million; 1978/79 is HK\$ 1.2 million; 1979/80 is HK\$ 1.2 million; 1980/81 is HK\$ 1.3 million; 1981/82 is HK\$ 1.9 million; 1982/83 is HK\$ 0.2 million.
2. Part of the planning role of the TDD was shared by the newly established PD from 1989/90

<b>TABLE 4.1.2.1B AVERAGE ANNUAL CB GROWTH RATE OF TDD IN THE IDENTIFIED NON-HOSTILE AND HOSTILE PERIODS</b>			
<b>Non-hostile Periods</b>	<b>Average Annual CB Growth Rate (%)</b>	<b>Hostile Periods</b>	<b>Average Annual CB Growth Rate (%)</b>
1973/74-1974/75	21.3	1975/76-1976/77	4.8
1977/78-1981/82	28.2	1982/83-1983/84	-24.8
1984/85-1987/88	21.1	1988/89-1993/94	8.9
		1994/95	-4.1

Source: The above data are adapted from Table 4.1.2.1A.

The validity of Hypothesis 1b in TDD is manifested in the higher annual average CB growth of the TDD in the identified non-hostile periods than in the identified hostile periods. As shown in Table 4.1.2.1B, the annual average CB growth rate of TDD:

- (a) in 1975/76-1976-77 (4.8%) was smaller than it was in 1973/74-1974/75 (21.3%);
- (b) in 1982/83-1983/84 (17.1%) was smaller than it was in 1977/78-1980/81 (-24.8%);
- (c) in 1988/89-1993/94 (8.9%) was smaller than it was in 1984/85-1987/88 (21.1%)
- (d) in 1994/95 (-4.1%) was smaller than it was in 1988/89-1993/94 (8.9%).

By examining the annual reports of the TDD, increasing importance of the TDD in the administration of the Territorial Development Strategy, Metroplan<sup>64</sup> and the PADS since 1986 seemed very likely to provide a relatively favourable budget environment, and consequently a less intense downward CB pressure in the general hostile period.

The validity of 1a and 1b in TDD is further buttressed by the similarity of budget pattern of the TDD and the typical regulatory agency, Marine Department, as they also experienced downward annual CB average growth in the general hostile period. (Table 4.1.2.1C)

TABLE 4.1.2.1C ANNUAL CB GROWTH RATE OF THE MARINE DEPARTMENT FROM 1974/75 TO 1993/94					
Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1974/75	45733	-	1982/83	157846	20.3
1975/76	45388	-0.1	1983/84	152913	-3.0
1976/77	47945	5.6	1984/85	147300	-3.7
1977/78	55248	15.2	1985/86	164452	11.6
1978/79	64359	16.5	1986/87	192956	18.1
1979/80	73958	14.9	1987/88	236432	22.5
1980/81	99432	34.4	1988/89	220251	-6.8
1981/82	131263	32.0	1989/90	276702	25.6
			1990/91	349873	26.4
			1991/92	362534	3.6
			1992/93	407794	12.5
			1993/94	463615	12.0
Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82		14.8	Average CB Growth Rate in the General Hostile Period from 1982/83 to 1993/94		12.5
Source: 'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c).)					

4.1.2.2 PD

Hypothesis 1b is not applicable to the PD for it was a newly established department during the general hostile period. The validity of hypothesis 1a is indicated by the continuous downward CB growth from 1991/92-1994/95. (Table 4.1.2.2)

TABLE 4.1.2.2 ANNUAL CB GROWTH RATE OF THE PD FROM 1989/90 TO 1994/95					
Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1989/90	24303	-	1992/93	186753	15.5
1990/91	121923	401.7	1993/94	209209	12.0
1991/92	164141	34.6	1994/95	227298	8.6
<i>Average CB Growth Rate in the General Hostile Period (1989/90 to 1995/96)</i>				<i>+70.6</i>	
Source: 'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c).)					



### 4.1.3 Budget Patterns of the Delivery / Trading Agency – HA & HD

In the case of HA&HD, hypothesis 1a is verified in that its annual average CB growth rate in the general hostile period (36.7%) is lower than the one in the general non-hostile period (9.8%) as shown in Table 4.1.3A.

<b>TABLE 4.1.3A ANNUAL CB GROWTH RATE OF THE HA &amp; HD FROM 1973/74 TO 1994/95</b>					
<b>Financial Years</b>	<b>HK\$ '000</b>	<b>Annual CB Growth %</b>	<b>Financial Years</b>	<b>HK\$ '000</b>	<b>Annual CB Growth %</b>
1973/74	244.6	-	1982/83	4090.6	28.3
1974/75	370.0	51.3	1983/84	4461.0	9.1
1975/76	426.0	15.1	1984/85	4364.0	-2.2
1976/77	508.6	19.4	1985/86	4613.7	5.7
1977/78	794.7	56.3	1986/87	5411.3	17.3
1978/79	1554.7	95.3	1987/88	6715.7	24.1
1979/80	2313.1	48.8	1988/89	8369.8	24.6
1980/81	3617.1	56.4	1989/90	10396.2	24.2
1981/82	3187.2	-11.9	1990/91	14867.3	43.0
			1991/92	9578.5	-35.6
			1992/93	6662.1	-30.4
			1993/94	9183.9	37.8
			1994/95	7444.9	-18.9
<i>Average CB Growth Rate in the General Non-Hostile Period from 1973/74 to 1981/82</i>		<i>36.7</i>	<i>Average CB Growth Rate in the General Hostile Period from 1983/84 to 1994/95</i>		<i>9.8</i>

Source: Hong Kong Housing Authority (Various Years.)

Notes:

1. The above data was compiled from the general administration expenses of the HA & HD, HOS, PRH and squatter provisions.
2. The land cost was excluded from the calculation as the HA & HD did not pay for in the reality.

<b>TABLE 4.1.3B AVERAGE ANNUAL CB GROWTH RATE OF THE HA &amp; HD IN THE IDENTIFIED NON-HOSTILE AND HOSTILE PERIODS</b>			
<b>Non-hostile Periods</b>	<b>Average Annual CB Growth Rate (%)</b>	<b>Hostile Periods</b>	<b>Average Annual CB Growth Rate (%)</b>
1973/74-1974/75	51.3	1975/76-1976/77	17.3
1977/78-1981/82	49.0	1982/83-1983/84	18.7
1984/85-1987/88	11.2	1988/89-1993/94	10.6
		1994/95	-18.9

Source: The above data are adapted from Table 4.1.3A.

The validity of Hypothesis 1b in HA&HD is manifested in the higher annual average CB growth of the HA&HD in the identified non-hostile periods than in the identified hostile periods. As shown in Table 4.1.3B, the annual average CB growth rate of HA & HD:

- (a) in 1975/76-1976-77 (17.3%) is smaller than it is in 1973/74-1974/75 (51.3%);
- (b) in 1982/83-1983/84 (18.7%) is smaller than it is in 1977/78-1980/81 (49.0%);
- (c) in 1988/89-1993/94 (10.6%) is smaller than it is in 1984/85-1987/88 (11.2%)
- (d) in 1994/95 (-18.9%) is smaller than it is in 1988/89-1993/94 (10.6%).

Similar to case of LD and TDD, Hypotheses 1a and 1b are not only to be statistically valid, but also are contextually valid in the case of HA & HD. According to Interviewee D, the general CB downturn of the HA & HD in the general hostile period seemed highly likely to be the result of manipulation by the policy actors in times of financial stringency. The policy actors had tightened the funding appropriation and the amount of land supply to HA & HD in the general financially stringent period. As a result, the colonial government could lessen its financial commitment on public housing provision and hence help ease the financial burden of the colonial government while the HA & HD was dumped into a general hostile period of budgeting.

By examining the annual reports of the HA & HD, the downward CB growth of the HA & HD in 1975/76-1976/77 seemed to be caused by the aftermath of 1973 oil crisis. The 1973 oil crisis induced the policy actors to postpone the implementation of the public works projects and hence the deferral of budget appropriation of public housing projects to the HA & HD. As a result, the CB of HA & HD was lowered during 1975/76-1976/77.

The CB downward growth in 1981/82-1983/84 seemed to be the outcome of local property market downturn and political uncertainty generated by sovereignty transfer. The downturn of the local property market and the issue of sovereignty transfer had made the HA slow down the construction schedule of its House Ownership Scheme (hereafter called HOS). It consequently led to the dropping of the Development Loan Fund from the Transfer to Fund of the colonial government and hence a downward CB growth in the concerned period.

For the downward CB growth in 1988/89-1993/94 and 1994/95, it seemed to be caused by the privatization of the HA & HD since the late 1980s. The privatization operationally refers to the double rent policy, enlarging the weighting of HOS among the total number of public housing and initiating the Private Sector Participation Scheme. These privatization efforts made the HA & HD lower its actual expenses on the public housing construction projects as part of the costing was compensated by the sales of public housing. As shown in the 1990/91 and the 1992/93 annual reports of HA, the HA was able to earn net income of HK\$0.1 billion and HK\$10 billion in 1989/90 and 1991/92 respectively. In short, the lower cost of operation of the public housing projects seemed to have lowered the CB growth of the HA & HD.

The validity of Hypotheses 1a and 1b in HA & HD is buttressed by the similarity of the budget pattern of the HA & HD and the Hospital Service Department and the Hospital Authority.



As shown in Table 4.1.3C, the Hospital Service Department and the Hospital Authority had experienced successive downward negative CB growth and continuous CB decrease in the 1990s respectively.

<b>Table 4.1.3C Annual CB Growth Rate of the Hospital Service Department (Newly-Established Department) &amp; the Hospital Authority (Delivery/Trading Agency)</b>				
Financial Years	HK\$ '000	Annual CB Growth %	HK\$ '000	Annual CB Growth %
	<i>Hospital Services Department</i>		<i>Hospital Authority</i>	
1989/90	3344590	-	N/A	N/A
1990/91	4315166	29.0	25040	-
1991/92	3308950	-23.2	3597796	14268.7
1992/93	126624	-96.2	11742662	226.4
1993/94	88835	-29.8	13817935	17.7

Sources:

1. 'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c).);
2. Hospital Authority (Various Years)
3. Quote from Chu (1995, p. 46)

Both the HA and the Hospital Authority also shared the experience in being made to operate with market principles. The HA was changed to self-financed operation mode while the Hospital Authority introduced the user-pay policy in the provision of medical services.

Based on the validity of Hypotheses 1a and 1b in the delivery, regulatory and the delivery & trading agencies, examination of Hypothesis 2 can be done by comparing their annual average CB growth difference in the general non-hostile period and the general hostile period. As the annual average CB growth difference in the general non-hostile period and the general hostile period of the HA & HD (13.7%) is larger than those of the LD (1.3%) and the TDD (10.8%) are, Hypothesis 2 is verified preliminarily.

## 4.2 BUDGET PATTERNS OF THE TAXING AGENCIES FB, IRD, R&V, TR AND AD

For Hypothesis 3, the five taxing agencies had also been subjected to a CB downward pressure in the general period, as they had lower average CB growth rate in general hostile period than they were in the general hostile period. Referring to Tables 4.2A-E:

- the annual average CB growth rate of the FB in the general hostile period (16.1%) was lower than it was in the general non-hostile period (11.5%) by 4.6%.
- the annual average CB growth rate of the IRD in the general hostile period (18.4%) was lower than it was in the general non-hostile period (14.6%) by 4.6%.
- the annual average CB growth rate of the R&V in the general hostile period (20.1%) was lower than it was in the general non-hostile period (7.1%) by 3.8%.
- the annual average CB growth rate of the TR in the general hostile period (22.1%) was lower than it was in the general non-hostile period (13.5%) by 8.6%.
- the annual average CB growth rate of the AD in the general hostile period (22.0%) was lower than it was in the general non-hostile period (13.4%) by 8.6%.

**TABLE 4.2A ANNUAL CB GROWTH RATE OF THE FB  
FROM 1973/74 TO 1994/95**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	570	-	1982/83	1850	-10.2
1974/75	660	13.6	1983/84	2510	35.7
1975/76	750	12.0	1984/85	3340	33.1
1976/77	730	-2.7	1985/86	4110	23.1
1977/78	850	16.4	1986/87	4030	-1.9
1978/79	1030	21.2	1987/88	4900	21.6
1979/80	1140	10.7	1988/89	6120	24.9
1980/81	1840	61.4	1989/90	6680	9.2
1981/82	2060	12.0	1990/91	7290	9.1
			1991/92	8080	10.8
			1992/93	9180	13.6
			1993/94	9300	1.3
			1994/95	7390	-20.5
<i>Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82</i>		<i>16.1</i>	<i>Average CB Growth Rate in the General Hostile Period 1982/83 to 1994/95</i>		<i>11.5</i>

Source: 'Estimates.' by Hong Kong Government. (Various Years(d))

Note: With the partial release of budget items of the FB from 1973/74 to 1979/80, adjusting ratio (13.6% of the total expenses of Government Secretariat) has been used after cross-checking the weighting of the FB among the expenses among the Government Secretariat.



**TABLE 4.2B ANNUAL CB GROWTH RATE OF THE IRD  
FROM 1973/74 TO 1994/95**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	27652	-	1982/83	178998	24.8
1974/75	30155	9.1	1983/84	187523	4.8
1975/76	33513	9.9	1984/85	215527	14.9
1976/77	43185	28.9	1985/86	254992	18.3
1977/78	50908	17.9	1986/87	296528	16.3
1978/79	60828	19.5	1987/88	318757	7.5
1979/80	76646	26.0	1988/89	355378	11.5
1980/81	103217	34.7	1989/90	428194	20.5
1981/82	143441	39.0	1990/91	553469	29.3
			1991/92	609895	10.2
			1992/93	689447	13.0
			1993/94	748638	9.1
			1994/95	244832	6.1
<i>Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82</i>		<b>18.4</b>	<i>Average CB Growth Rate in the General Hostile Period 1983/84 to 1994/95</i>		<b>14.6</b>

Source:

'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c))

Notes

Not every financial year the IRD acquired the Non-CB Budget, except the following years: 1977/78 for HK\$ 169.9; 1979/80 for HK\$ 2266.4; 1980/81 for HK\$ 4551.7 & 1982/83 for HK\$ 8000 for which are also referred to entertainment expenses.

**TABLE 4.2C ANNUAL CB GROWTH RATE OF THE R&V  
FROM 1973/74 TO 1994/95**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	7374	-	1982/83	48346	22.1
1974/75	10377	40.7	1983/84	54091	11.9
1975/76	11214	8.1	1984/85	59835	10.7
1976/77	14400	28.5	1985/86	66663	11.4
1977/78	15895	10.4	1986/87	78300	17.5
1978/79	19033	19.7	1987/88	85529	9.2
1978/80	22693	19.2	1988/89	91077	6.5
1980/81	30385	33.9	1989/90	104680	14.9
1981/82	39596	30.3	1990/91	121882	16.4
			1991/92	136928	12.3
			1992/93	151051	10.3
			1993/94	169763	12.4
			1994/95	191980	13.1
<i>Average CB Growth Rate in the General Non-Hostile Period from 1973/74 to 1981/82</i>		<b>20.1</b>	<i>Average CB Growth Rate in the General Hostile Period 1982/83 to 1994/95</i>		<b>13.0</b>

Source:

'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c))

Note:

Non-CB come from entertainment expenses: 1977/78 for HK\$ 2000 (Rent); 1978/79 for HK\$ 2894.29; 1979/80 for HK\$1900.6; 1980/81 for HK\$ 2897.58; 1981/82 for HK\$ 5000; 1982/83 for HK\$ 5000 (Entertainment).



**TABLE 4.2D ANNUAL CB GROWTH RATE OF THE TR  
FROM 1973/74 TO 1994/95**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	9808	-	1982/83	59483	21.9
1974/75	11310	14.2	1983/84	63548	6.8
1975/76	11184	-1.1	1984/85	67010	5.4
1976/77	13681	22.3	1985/86	73087	9.1
1977/78	18414	32.8	1986/87	84387	15.5
1978/79	19955	8.4	1987/88	93286	10.5
1979/80	23024	15.4	1988/89	107849	15.6
1980/81	30562	32.7	1989/90	135804	25.9
1981/82	48786	52.0	1990/91	181136	33.4
			1991/92	185030	2.1
			1992/93	206520	11.5
			1993/94	230686	11.7
			1994/95	244832	6.1
<i>Average CB Growth Rate in the General Non-Hostile Period from 1973/74 to 1981/82</i>		22.1	<i>Average CB Growth Rate in the General Hostile Period from 1982/83 to 1994/95</i>		13.5

Source: 'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c))

**TABLE 4.2E ANNUAL CB GROWTH RATE OF THE AD  
FROM 1973/74 TO 1994/95**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	3474	-	1982/83	20387	22.6
1974/75	4091	17.8	1983/84	23341	14.5
1975/76	4356	6.5	1984/85	26897	15.2
1976/77	5296	21.6	1985/86	30141	12.1
1977/78	6344	19.8	1986/87	33781	12.1
1978/79	7567	19.3	1987/88	36387	7.7
1979/80	8896	17.6	1988/89	40628	11.7
1980/81	12499	40.5	1989/90	47014	15.7
1981/82	16627	33.0	1990/91	50623	7.7
			1991/92	63602	19.6
			1992/93	73741	15.9
			1993/94	80178	8.7
			1994/95	88648	10.6
<i>Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82</i>		22.0	<i>Average CB Growth Rate in the General Hostile Period from 1982/83 to 1994/95</i>		13.4

Source:

'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c))

For Hypothesis 3, the five taxing agencies underwent lesser downward CB growth in the general hostile period, as indicated by their lower CB decrease in the general hostile period as compared with the LD, the TDD and HA & HD. Recalling the sections on the LD, the TDD and the HA & HD, their average annual CB growth rate in the general hostile period had decreased by 11.0%, 13.7% and 26.9% respectively. However, those of the five taxing agencies had never decreased by more than 9%. The annual average CB growth rate for the FB, the IRD, the R&V, the TR and the AD had decreased by 4.6%, 3.6%, 7.1%, 8.6% and 8.6% respectively.

The lesser downward CB growth of the taxing agencies is caused by CB increase in the identified hostile periods. As shown in Table 4.2F,

		Average Annual CB Growth Rate				
		FB <sup>1</sup>	IRD <sup>2</sup>	R&V <sup>3</sup>	TR <sup>4</sup>	AD <sup>5</sup>
<i>Non-Hostile Periods</i>	1973/74–1974/75	13.6	9.1	40.7	14.2	17.8
	1977/78–1981/82	24.3	27.4	22.7	28.3	26.0
	1984/85–1987/88	19.0	14.3	12.2	10.1	11.8
<i>Hostile Periods</i>	1975/76–1976/77	4.7	19.4	18.3	10.6	14.0
	1982/83–1983/84	12.8	14.8	17.0	14.4	18.6
	1988/89–1993/94	20.5	15.6	12.1	16.7	13.2
	1994/95	-20.5	6.1	13.1	6.1	10.6

Notes

1. Data of FB is adapted from Table 4.3A.
2. Data of IRD is adapted from Table 4.3B.
3. Data of R&V is adapted from Table 4.3C.
4. Data of TR is adapted from Table 4.3D.
5. Data of AD is adapted from Table 4.3E.

the annual average CB growth rate of the five taxing agencies did not fall in the hostile period of 1988/89 to 1993/94 when compared with the non-hostile period of 1984/85–1987/88.



Examining the CB contents of these taxing agencies, the lower downward CB growth of the taxing agencies were inherently caused by the efforts of the policy actors to enhance the revenue extraction capacity of the five taxing agencies in the general hostile period. These efforts included computerization and automation of their offices in general for advancing the government revenue collection capacity. The concrete computerization and automation measures in the FB in the general hostile period included:

- (a) Initiating an 'value for money' study in 1985 (Hong Kong Government, Various Years - 1986);
- (b) Introducing a data sharing system in 1987/88 to 1988/89 so as to lower the financial administration and potential wastage of resources for the colonial government
- (c) Employing an Overall Financial Adviser in the 1991/92 (Hong Kong Government, Various Years – 1992);
- (d) Introducing a new cost saving system in 1991/92 and 1992/93 (Hong Kong Government, Audit Department, Various Years - 1993; Hong Kong Government, Public Accounts Committee, Various years - 1993 & 1996);
- (e) Advancing its data sharing system and general computer system in 1995. (Hong Kong Government, Finance Branch, Various Years(d) - 1996)

The computerization and automation of the IRD were:

- (a) Advancing the Integrated Date Base System;
- (b) Upgrading the accounting software and hardware;
- (c) Initiating long term computerization of tax collection system by purchasing the 'Image / Microfilming Processing System' and the microcomputer based system with bar-code technology.

As for the TR, its office automation measures refer to the introduction of a computer based information system, LAFIS, for which had been described as capable of increasing the resources utilization efficiency of the CWRP of various government departments<sup>65</sup> and the colonial government as a whole.



(Hong Kong Government, Treasury, Various Years - 1985) Also, this favourable budgeting impact spilled over to the AD and consequently facilitated the AD (as well as the other four taxing agencies) to acquire a relatively prosperous CB growth in the general hostile period. (Hong Kong Government, Treasury, Various Years - 1993)

The lower CB downward growth in the general hostile period of the R&V was not just predominantly contributed by its automation and computerization<sup>66</sup>. Referring to the internal circulated newsletter of R&V titled '*R&V News*'<sup>67</sup>, its lower CB downward growth was also contributed by the expansion of personal emoluments in 1984/85 -1986/87<sup>68</sup> and in the 1990s. The expansion of personal emoluments in 1984/85 -1986/87 seemed very like to be a result of new responsibilities of the R&V, namely the collection of estate duty and stamp duty as they were originally responsible by the IRD. The expansion in the 1990s seemed to be a result of the establishment of a special division to handle the collection of rates, estate duty, stamp duty, as well as land rent that caused by the PADS.

The above demonstration of the validity of Hypothesis 3 is buttressed by the similarity of the CB patterns between the five taxing agencies as the correlation coefficient value<sup>69</sup> of each study taxing agency with the typical taxing agency, the IRD are also higher than 0.5. The correlation coefficient of the IRD and FB is +0.6; the IRD and the R&V is +0.6; the IRD and the TR is +0.8 while the IRD and the AD is +0.7.

### 4.3 BUDGET PATTERNS OF THE TRANSFER & REGULATORY AGENCIES, THE SERVICING AGENCY AND THE TRADING AGENCY

#### 4.3.1 Budget Patterns for the Regulatory / Transfer Agencies - PELB & WB, TB and HB

Hypothesis 4 is not applicable to the PELB & WB as it was not established till 1982/83. The validity of Hypothesis 4 in TR is indicated by the zero CB growth in 1981/82. (Table 4.3.1B) The validity of Hypothesis 4 of HB is indicated by the zero CB growth in almost the whole general non-hostile period, except for years of 1978/79 and 1980/81. (Table 4.3.1C)

The lesser downward CB development of the PELB&WB and the TB than the HB (Hypothesis 5) is shown in the continuation of the PELB&WB and the TB through the whole general hostile period and the suspension of the HB in more than half of the general hostile period. (Table 4.3.1A-C)

**TABLE 4.3.1C ANNUAL CB GROWTH RATE OF THE PELB & WB FROM 1973/74 TO 1994/95**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	-	-	1982/83	33302	-
1974/75	-	-	1983/84	34923	4.9
1975/76	-	-	1984/85	37274	6.7
1976/77	-	-	1985/86	40405	8.4
1977/78	-	-	1986/87	34196	-15.4
1978/79	-	-	1987/88	37701	10.2
1979/80	-	-	1988/89	45543	20.8
1980/81	-	-	1989/90	59805	31.3
1981/82	-	-	1990/91	78480	31.2
			1991/92	102989	31.2
			1992/93	106546	3.5
			1993/94	239006	124.3
			1994/95	252801	5.8

Source: 'Estimates.' by Hong Kong Government. (Various Years(d))

Notes:

The Non-CB in 1982/83 was HK\$ 1910718.05 while the Non-CB in 1983/84 was HK\$ 7748153.67.



**Table 4.3.1B Annual CB Growth Rate of the TB  
from the 1973/74 to 1994/95**

Financial Years	HK\$ million	Annual CB Growth %	Financial Years	HK\$ million	Annual CB Growth %
1973/74	-	-	1982/83	4700	0.0
1974/75	-	-	1983/84	7900	68.0
1975/76	-	-	1984/85	7500	-5.0
1976/77	-	-	1985/86	8800	17.3
1977/78	-	-	1986/87	10300	17.0
1978/79	-	-	1987/88	11300	9.7
1979/80	-	-	1988/89	15100	33.6
1980/81	4700	-	1989/90	15400	2.0
1981/82	4700	0.0	1990/91	22000	42.9
			1991/92	28400	29.1
			1992/93	33900	19.4
			1993/94	29700	-12.4
			1994/95	27600	-7.0

Source: 'Estimates.' by Hong Kong Government, (Various Years(d)).

Note:

Regarding individual budget account of the FB which had not been released from 1973/74 to 1979/80, adjusting ratio (3.5% of the total expenses of Government Secretariat) has been used after cross-checking the weighting of the FB among the Government Secretariat of the whole study period.

**TABLE 4.3.1C ANNUAL CB GROWTH RATE OF THE HB  
FROM 1973/74 TO 1994/95**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	200	0.0	1982/83	700	0.0
1974/75	200	0.0	1983/84	1500	114.3
1975/76	200	0.0	1984/85	1600	6.7
1976/77	300	0.5	1985/86	2200	37.5
1977/78	300	0.5	1986/87	2800	27.3
1978/79	400	33.3	1987/88	##	##
1979/80	400	0.0	1988/89	##	##
1980/81	700	75.0	1989/90	##	##
1981/82	700	0.0	1990/91	##	##
			1991/92	##	##
			1992/93	##	##
			1993/94	##	##
			1994/95	5000	-

Source: 'Estimates.' by Hong Kong Government (Various Years(d)).

Note:

1. The HB had been suspended from 1987/88 to 1993/94 and it was represented by the sign '##'.
2. The HB had been re-established in 1994/95.
3. Regarding individual budget account of the FB which had not been released from 1973/74 to 1979/80, adjusting ratio (0.5% of the total expenses of Government Secretariat) has been used after crosschecking the weighting of the FB among the Government Secretariat of the whole study period.

After examining the budget breakdown of the PELB & WB and the TB, their lower downward CB growth, on one hand, it seemed to have caused by their increasing planning and coordinating role in the infrastructure projects, such as the Metroplan, the Territorial Development Plan, the Route 3 and the PADS.



On the other hand, referring to the annual reports of the HA, the cause for the lower downward CB growth of the PELB & WB and the TB seemed to be caused by the reinstitutionalization of the HB. HB's role of housing policy co-ordination was exported to the HA from 1987/88 to 1993/94 and hence brought about the suspension of the HB and the lower CB growth of the PELB&WB and TB.

Different from the fore-mentioned agency types, the validity of Hypotheses 4 and 5 are not buttressed when comparing the three transfer/regulatory agencies with the typical transfer/regulatory agency, namely the University Grant Committee. (hereafter called UGC) This is because the UGC is largely a regulatory agency while the three study transfer/regulatory agencies are with stronger role in budget co-ordination. In fact, the UGC did not experience a lower downward CB growth in the general hostile period. Rather, its CB had dropped by 9.3% in the general hostile period (26.4%) compared with its general non-hostile period (17.2%). (Table 4.3.1D)

Table 4.3.1D Annual CB Growth Rate of the University Grant Committee from 1974/75 to 1993/94					
Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1974/75	511	-	1982/83	5322	80.5
1975/76	532	4.1	1983/84	5856	6.3
1976/77	627	17.9	1984/85	6085	3.9
1977/78	717	14.4	1985/86	6195	1.8
1978/79	836	16.6	1986/87	7324	18.2
1979/80	1153	37.9	1987/88	8936	22.0
1980/81	1963	70.3	1988/89	6094	-31.8
1981/82	2949	50.2	1989/90	6341	4.1
			1990/91	7763	22.4
			1991/92	10122	30.4
			1992/93	11486	13.5
			1993/94	15481	34.8
<i>Average CB Growth Rate in the General Non-Hostile Period 1974/75 to 1981/82</i>		26.4	<i>Average CB Growth Rate in the General Hostile Period 1982/83 to 1993/94</i>		17.2
Source: 'Estimates.' by Hong Kong Government. (Various Years(d))					

### 4.3.2 Budget Patterns of the Servicing Agency - HRD

The validity of Hypothesis 6 is manifested in the similarity between the CB patterns of the HRD and the selected land and housing departments. As the functional roles of the HRD were to provide the services of lighting, tunnels, traffic controls system, etc, all the selected land and housing administrative departments and therefore clients for HRD for land resumption, housing projects and infrastructure development would also need require its service. As a result, the CB growth of the HRD had also experienced similar CB growth pattern as did by the outlined land and housing departments. The first correspondence of the CB growth of them is made in terms of as the lower annual average CB growth of the HRD in the general hostile period (12.9%) than it was the general non-hostile period (23.8%) by 10.9%. (Table 4.3.2A)

**TABLE 4.3.2A ANNUAL CB GROWTH RATE OF THE HRD  
FROM 1973/74 TO 1994/95**

Financial Years	HK\$ '000	Annual CB Growth %	Financial Years	HK\$ '000	Annual CB Growth %
1973/74	26969	-	1982/83	##	##
1974/75	48239	78.7	1983/84	##	##
1975/76	59097	22.3	1984/85	##	##
1976/77	45518	-23.0	1985/86	##	##
1977/78	67486	48.3	1986/87	382292	-
1978/79	83350	23.6	1987/88	463601	21.3
1979/80	107511	29.0	1988/89	567015	22.3
1980/81	154103	43.3	1989/90	645898	13.9
1981/82	22645	-85.3	1990/91	789453	22.2
			1991/92	889421	12.7
			1992/93	1007798	13.3
			1993/94	1118585	11.0
			1994/95	1101095	-0.2
<i>Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82</i>		23.8	<i>Average CB Growth Rate in the General Hostile Period 1982/83 to 1994/95</i>		12.9

Source:

'Annual Report of the Account General' by Hong Kong Government, Treasury Branch. (Various Years(c))

Notes:

1. In 1973/74, the HRD was operated as a division of the Public Works Department. The HRD was not formally established until 1986/87. Its role was shared by other departmental agencies from 1982/83 to 1985/86 and which is represented by the '##'.
2. Item of personal emolument do not include in the budget of non-hostile period as it is only a division of the Public Works Department.

The second correspondence is in annual average CB growth rate of the HRD, which was smaller in all the identified hostile periods than all the identified non-hostile periods. (Table 4.3.2B)

<b>TABLE 4.3.2B      AVERAGE ANNUAL CB GROWTH RATE OF THE HRD IN THE IDENTIFIED NON-HOSTILE AND HOSTILE PERIODS</b>			
Non-hostile Periods	Average Annual CB Growth Rate (%)	Hostile Periods	Average Annual CB Growth Rate (%)
1973/74-1974/75	78.7	1975/76-1976/77	-3
1977/78-1980/81	11.8	1982/83-1983/84	N/A
1984/85-1987/88	21.3	1988/89-1993/94	15.9
		1994/95	-0.2
Source: The above data are adapted from Table 4.3.2A.			

Similar to the case of the transfer/regulatory agency, the validity of Hypothesis 6 cannot be strengthened by comparing the CB patterns of the HRD with the typical servicing agency, namely the Government Supplies Department. This is because the client departments of the Government Supplies Department were all the departments of the colonial bureaucracy while those of the HRD were only one of the sectors of the colonial bureaucracy.

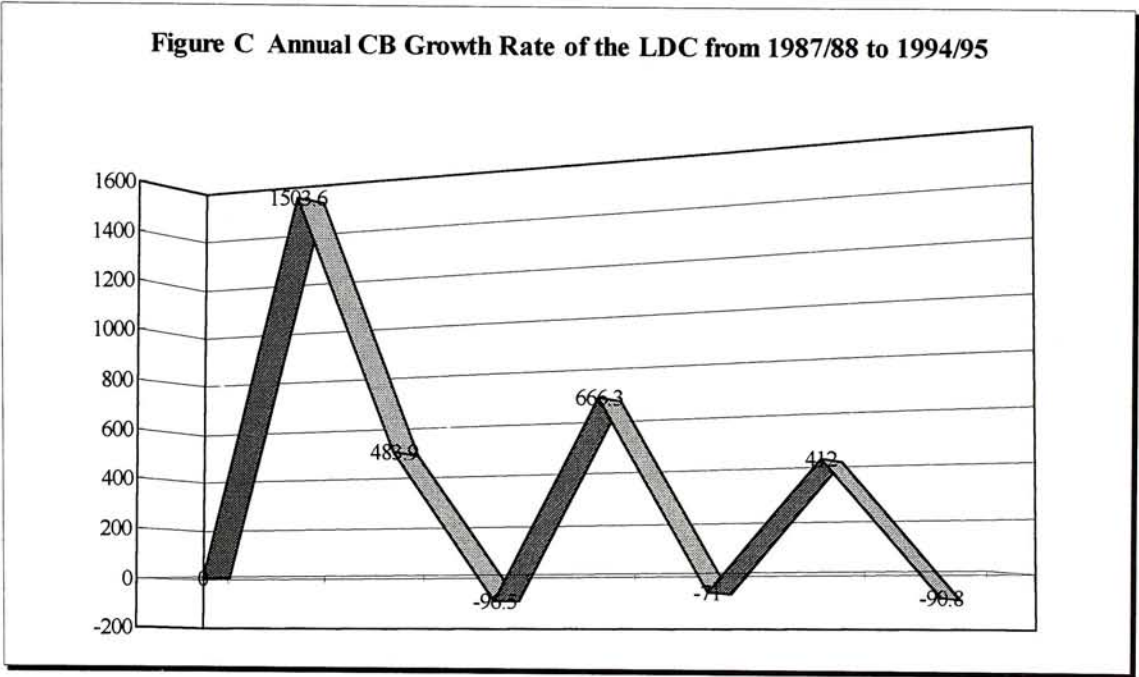


4.3.3 Budget Patterns of the Trading Agency - LDC

Given the market environment of the LDC, such as the number of redevelopment projects, was institutionally constituted by the LDC ordinance, the CB patterns should be positively correlated to the approved number of redevelopment projects by the policy actors if the Hypothesis 7 is valid. By examining the annual reports of the LDC, its zigzag CB patterns (Table 4.3.3A and Figure C) and implementation of redevelopment projects are found to be positively correlated and therefore validates Hypothesis 7.

TABLE 4.3.3A ANNUAL CB GROWTH RATE FOR THE LDC FROM 1987/88 TO 1994/95				
	CB		Non-CB	
	HK\$ '000	Annual CB Growth %	HK\$ '000	Annual CB Growth %
1987 / 1988	6423	-	20	-
1988 / 1989	102998	+1503.6	215	+975.0
1989 / 1990	601390	+483.9	349	+62.3
1990 / 1991	21269	-96.5	65	-81.4
1991 / 1992	162990	+666.3	240	+269.2
1992 / 1993	47273	-71.0	275	+14.6
1993 / 1994	242036	+412.0	294	+6.9
1994 / 1995	22293	-90.8	394	+34.0

Source: Land Development Corporation. (Various Years)  
Note: The LDC was not established until 10 December 1987.



Referring to the LDC Annual Report 1991, the huge CB growth in 1988/89 (1503.6%) seemed to be an outcome of eight redevelopment sites<sup>70</sup>. (Land Development Corporation, Various Years - 1989 & 1991)

The high CB growth of LDC in 1989/90 might probably be caused by the deferral of three out of the eight redevelopment projects. These three deferred projects included the projects of 'Sai Yeung Choi Street', 'Li Chit Street' and the 'Yuanne Lane'. (LDC, Various Years - 1990)

In regard to the relatively slower CB growth of the LDC in the 1990/91 (-96.5%), it seemed to be caused by the absence of any new LDC redevelopment projects. LDC's CB increase in 1991/92 (666.3%) seemed very likely to be caused by the introduction of new redevelopment projects such as the redevelopment projects of 'Nathan Road and Dundas Street', 'Wing Lok Street', 'Jubilee Street / Queen's Road Central' and 'Argyle Street/ Shanghai Street'.

The CB downturn of LDC in 1992/93 (-71.0%), it seemed to be caused by absence of new redevelopment projects. The LDC's CB upturn in 1993/94 (412.0%) seemed to be an outcome of the introduction of four new development projects, including the projects of 'Thomson Road / Henessary Road in Wan Chai', 'Shiu Wo Street in Tsuen Wan', 'Boulderly Street and Gillies Street in Hong Kong'. The relatively slower CB growth in 1994/95 (-90.8%) was likely to be caused by the absence of new redevelopment projects again. (LDC, 1995)

Although the LDC had been constituted to cater the needs of redevelopment projects of the urban area, in which the number and the types of redevelopment projects had also been constituted by the policy actors through the LDC ordinance, the LDC still acquired relative autonomy in handling its CB. The relative autonomy of the LDC is manifested in the quality difference of its re-housing sites and sites for market sale where the LDC had put more investment on sites for market sales. LDC's re-housing sites and sites for market sales are summarized in Table 4.3.3B<sup>71</sup>.

Table 4.3.3B    Rehousing Sites and Sites for Market Sales by LDC	
Rehousing sites	Sites for Market Sales
<ul style="list-style-type: none"> <li>◆ Kui Yan Court (居仁閣), 3, Kui Yan Lane, Sai Ying Pun</li> <li>◆ Bedford Tower, (碧發臺) Bedford Road, Tai Kok Tsui</li> <li>◆ Lai Chu Building (麗珠大廈) 163-165, Lai Chi Kok Road Shum Shui Po</li> </ul>	<ul style="list-style-type: none"> <li>◆ Tai Yuen Court (太源閣)</li> <li>◆ Li Chit Garden (李節花園)</li> <li>◆ Ko Nga Court (高雅閣)</li> <li>◆ Yan Yee Court (忻怡閣)</li> </ul>
Source: Land Development Corporation (Various Years)	

In general the quality of the re-housing sites are poorer than those for market sales in terms of ‘location or surrounding environment’, ‘security and management’ and as well as ‘finishing’.

According to confidential appraisal reports of the LDC projects which were released by Interviewee F, typical examples of the poorly located re-housing sites were Bedford Tower, Kui Yan Court and Lai Chu Building. Being appraised by the R&V, the Bedford Tower was rounded and was bounded by public lavatory and situated in industrial area respectively, especially for the first and the second floor. For the Kui Yan Court and



the Lai Chu Building, they were in inferior location with poor transport, i.e. being far away from MTR station. Examples of typical sites allocated for market sale were Li Chit Garden and Ko Nga Court. Both of them were also commented as 'good accessibility', 'well served of public transport' and 'convenient' by the R&V. Furthermore, the Ko Nga Court was appraised to be located on a sloping site with quiet surrounding as those of upper class housing. (Chu, 1997e)

According to the confidential appraisal reports of the LDC projects, a typical example of the poorer security and management of the re-housing sites would be Kui Yan Court. This is because its CCTV was malfunctioned while it was under site inspection by the R&V whereas such incident had not been happened in the sales sites, the CCTV system and the intercommunication system were found to be functioning perfectly during inspection.

The finishing of all the re-housing sites were found to be inferior when compared with those for market sale. This is because the R&V's appraisals reports show us that the internal finishing of all the re-housing sites were only decorated with emulsion printing wall while all the market sales were decorated with plastered walls. Similar incident could also be found in the decoration of entrance hall. All the entrance halls of all rehousing sites were not be equipped with air-conditioning and false ceiling decoration whereas as for sites for sales, both facilities were provided. (Chu, 1997e)

The validity of Hypothesis 7 is also proved by the similarity and the dissimilarity in CB pattern between the LDC and the typical delivery/trading agency, i.e. the Hong Kong Productivity Council. Their similarity is manifested on their CB patterns were all dissimilar to other land and housing administrative departments that were not operating in market principles. The dissimilarity is manifested the Hong Kong Productivity Council did not experience so many CB upturns and downturns in the whole study period as did by the LDC or a downward CB growth in the general non-hostile period. (Table 4.3.3C) Their difference CB patterns somehow reflect that they were operating in different market environment.

**TABLE 4.3.3C ANNUAL CB GROWTH RATE OF  
THE HONG KONG PRODUCTIVITY COUNCIL FROM 1973/74 TO 1993/94**

Financial Years	HK\$ '000	% Growth	Financial Years	HK\$ '000	% Growth
1973/74	4250	-	1982/83	22276	28.9
1974/75	4649	9.4	1983/84	30119	35.2
1975/76	5207	12.0	1984/85	33264	10.4
1976/77	5268	1.2	1985/86	39053	17.4
1977/78	6551	24.4	1986/87	48479	24.1
1978/79	7278	11.1	1987/88	64304	32.6
1979/80	8969	19.4	1988/89	75284	17.1
1980/81	17893	105.9	1989/90	106324	41.2
1981/82	17297	-3.4	1990/91	126400	18.9
			1991/92	156997	24.2
			1992/93	195358	24.4
			1993/94	224662	15.5
<i>Average CB Growth Rate in the General Non-Hostile Period 1973/74 to 1981/82</i>		<i>20.0</i>	<i>Average CB Growth Rate in the General Hostile Period 1982/83 to 1993/94</i>		<i>22.3</i>

Source: Hong Kong Productivity Council. (Various years)



## Notes

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- <sup>64</sup> Details can be referred to (Hong Kong Government, Lands and Works Branch, 1991; 1991a & 1991b; Shui On Group. 1993b; 1993c).
- <sup>65</sup> Building upon the LAFIS, the TR had further developed the departmental costing system, introducing the trading fund to various government departments from 1991/92 onwards.
- <sup>66</sup> According to Interviewee F, one should not argue the formal appropriation of the R&V computerization had been said to be in 1993 and so the computerization could hardly be served as the budget content for the CB growth of R&V in the early 1990s. It is because the action of computerization had been started for three to four years (late 1980s) before the actual appropriation whereby the computer main frame was put at the go-down of the R&V according to the insider of the R&V. (Hong Kong Government, Rating and Valuation Department, Various Years(a) - 1993 (2); Hong Kong Government, Rating and Valuation Department, Various Years - 1993; Chu, 1997e)
- <sup>67</sup> The R & V News is a newsletter in the R&V. It is compiled by the periodical meeting of division heads of the R&V. All its main issues or activities will also reported in the newsletter. (Chu, 1997e)
- <sup>68</sup> Corresponding statement of the newsletter are: "The department [the R&V] will be responsible for estate and stamp duty valuation in repeats of premises in the district of Tai Po and Sha Tin. The department is already responsible for such valuation in Sai Kung district and it is intended to take over responsibility from the Lands Department in respect of premises in North and Yuen Long district." (Hong Kong Government, Rating and Valuation Department, Various Years(a) - 1984(1), p. 3) "the department has been deferred to take over the stamp duty and estate duty until October / November 1984. " (Hong Kong Government, Rating and Valuation Department, Various Years(a) - 1984(2), p. 4) "Since 1 June 1986, the department [the R&V] has taken over from the Buildings and Lands Department the stamp duty and estate duty valuations in respect of premises situated in the Island District. Those in Tsuen Wan, Kwai Chung, Tsing Yi and Tuen Mun will be taken over later in the year. It is intended that the department will assume to take up all stamp duty and estate duty work in the whole territory by January 1987." (Hong Kong Government, Rating and Valuation Department, Various Years(a) - 1986(2), p. 3) "Since 1st March 1987, the department has assumed responsibility for all stamp duty and estate duty valuations throughout the territory." (Hong Kong Government, Rating and Valuation Department, Various Years(a) - 1987(1), p. 4) "Planning has commenced for a general revaluation to be effective in 1 April 1988. It is likely that extensive use will be made by computer assisted mass appraisal techniques for this review and our Rating Adviser A, Ross Stevenson, will be working together with the Government Data Processing Manager on further developing our computer facilities for this purpose." (Hong Kong Government, Rating and Valuation Department, Various Years(a) - 1985(2), p. 1)
- <sup>69</sup> Correlation coefficient is originally used to examine the extent of two variables 'look like'. Here it have been borrowed its statistical rationale to examine the budget pattern similarity between departments. The similarity refers to department's resemblance of downward development of their annual average CB growth and lighter reduction of CB in the general hostile period. The coefficient ranges from -1 to +1. If the value of the coefficient is closer to one, the higher would be their similarity and vice versa. A measure of one indicates a perfect similarity. (Healey, 1995, p. 315)



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- <sup>70</sup> The involved private sector companies were Sun Hung Kai Properties, Cheung Kong (Holdings) Ltd., The Great Eagle Co. Ltd. and New World Development Co Ltd. The eight project- sites are: (1) 'Queen's Road, Central and Jubilee Street', (2) 'Wing Lok Street and Queen's Road, Central', (3) 'Argyle Street and Shanghai Street, Mong Kok', (4) 'Waterloo Street and Yuarne Lane, Yau Ma Tei', (5) 'Sai Yeung Choi Street South, Mong Kok', (6) 'Li Chit Street, Wan Chai', (7) 'Third Street, Sai Ying Pun', as well as (8) 'Western Market'.
- <sup>71</sup> The commercial and office projects - the 466, Des Voeux Road West, Queen's Road Central, and Western Market are excluded.

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## **CHAPTER FIVE:**

# **CONCLUSION & DISCUSSION**

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Scholarly works on public budgeting in Hong Kong have mostly approached the topic from a technical and economic point of view. The political aspect of budgeting has been largely neglected. On the other hand, the prevalent approaches to budgeting are either based on incrementalism or the economic approaches. This thesis attempted to contribute to budgeting studies in general and in Hong Kong in particular by adopting the institutional approach to study the politics of budgeting in Hong Kong.

An attempt has been made to derive a model of public budgeting of the colonial government. The model is built upon the historical institutional approach and the thesis of 'multi-level, interlinked institutions'. The principal argument of the model is that the budgets of the colonial government from the 1970s to the 1990s were the outcome of complex interaction of macro-structural context, institutional factors and bureaucratic interests. The budgetary process involves two levels of institutions, namely the policy making level and the administrative level, with the budgetary authorities of the latter level being subordinated to the former one.

Constrained by the limited availability of time and resources and non-accessibility of certain confidential colonial government information, this study has been confined to the case study of the land and housing domain during the 1970s-1990s. Moreover, the concrete mechanism of interaction and negotiation among concerned officials and the effect of the changes in budgetary guidelines over the years are beyond the scope of the thesis. Instead the study concentrates on establishing two correlations: 1) the correlations between economic fluctuations and the supply of crown land and the proportion of indirect taxations in making up the total revenue; 2) the correlations between the public finance policy of the policy actors and the resulting budget patterns of various departments.

The present study finds that the policy actors of the first level institutions had manipulated the supply of crown land and had augmented the government revenue extraction role of indirect tax, fees & charges when the economy was in downturns and the colonial government was in financial stringency. These findings, as a result, demonstrate a negative correlation between economic growth and the preservation effort of the policy actors of the colonial government. Such a strong negative correlation then establishes a *prima facie* case for the validity of the claim that the public budgets of the colonial government in the past two decades were shaped by some conservative institutional practices.

The analysis of the second level institutions explicate that ability of the senior bureaucrats in the second level institutions to increase their CB are negatively correlated to the effort of the financial oversight of the policy actors of the first level institutions, which in turn was related to the economic upturns and downturns. Owing to the particular methods of the policy actors in manipulating their revenue sources, i.e. through land sales and indirect tax, different types of agencies thus



display different patterns of budgetary changes over time, mostly due to their different role in the policy actors' strategies of revenue extraction. The findings of the budget patterns of different agencies did confirm the presence of such correlations.

Not totally in line with incrementalism, the above findings purport that the seminar bureaucrats in both the policy making level and the administrative level possess relative autonomy in handling budget matters. The public budgets of the colonial government were not simply continuations of the past with minimal modification, but were subjected to manipulation for maintaining the financial viability of the colonial government. The adherence of low tax regime, enhancing the role of indirect tax and fees & charges of the policy actors and the CB push-up activity of the senior bureaucrats in different administrative departments that respectively outlined in chapters three and four serve as preliminary justifications on this argument.

Grounded on the research findings, Nickanen's budget-maximization thesis seems to require the incorporation of the concept of institutions into analysis. This is because bureaucrats are never free from institutional constraints, such as budgetary guidelines and budget-making procedures. Also, these constraints are historically specific. In the case of Hong Kong, institutional constraints in the past two decades seemed to have emerged from particular economic structure which evolved since the early days of colonial rule. (See Chapter Two for details)

In addition to the incorporation of the concept of 'institutions', the concept of 'institutions level' also needs to be taken into account as bureaucratic behaviour at different levels of the government seemed to be different from each

other. The research findings of this study preliminarily indicate that bureaucrats who are at the apex of the government bureaucracy might not focus on budget maximizing activities as did by the senior bureaucrats in the administrative level. In other words, assuming that bureaucrats are all budget maximizers seems to oversimplify the actual operation of a government bureaucracy. The behaviour of government bureaucrats' may very probably be shaped by their particular working contexts and therefore acquired different behaviours towards public budget. If the findings of this study is true, the difference in budget-making behaviour in different levels of government then preliminarily explicate that bureaucrats' behaviour need not to be utility-driven, but more often driven by the administrative rationale of 'trouble avoidance'.

All in all, this study represents an attempt to apply the historical institutionalist approach and the thesis of 'multi-level interlinked institutions' in studying the public budgeting politics of Hong Kong. The explanatory model somehow serves as an alternative perspective in viewing the public budgeting of Hong Kong, in which some of the insufficiencies that are embodied in incrementalism and those budgetary theories which are oriented in economic theories are eased preliminarily. Applying it in the study of public budgeting politics of in Hong Kong can somehow said to be unconventional and original.

However, there are a number of limitations. The first limitation lies in the limited amount of background researches. The limited background researches available as references restrict the possible scope of the study of the model to exclude: (1) the concrete mechanism of interaction and negotiation among the concerned officials; (2) the effect of changes in budgetary guidelines over the



years; (3) how exactly the administration rationale of trouble avoidance affect the concerned government officials in budget-making. Thus, bringing all these parts of the model back into the analysis in the future is a must.

The second limitation of the present study lies in the non-accessibility of some confidential government information. The non-accessibility of certain government information, such as the budgetary guidelines of the colonial government and documents, that should have recorded the reasons of why the colonial government or administrative departments would have a particular priority of public expenses. These have caused the study to rely on indirect indicators and secondary data. No doubt this would have affected the reliability of the study considerably. Despite the fact that the study has already used interview data to strengthen the reliability of the findings, the unavailability of interviewees in relevant administrative agencies, such as the HRD, the TR, the FB and the IRD, has again restricted the reliability of the present study. In order to enhance the reliability, a more comprehensive selection of interviewees is needed in the future.

Due to the non-accessibility of some government information, the study has been confined to examine the institutions level of policy making level and administrative level. For historical institutionalists, there must be other institutional levels which fall between the policy making level and the administrative level, such as the intra-divisions of an administrative department. Therefore, a general model of public budgeting with more institutional levels is needed in order to achieve a more comprehensive picture of public budgeting politics of Hong Kong.



Although the land and housing domain had contributed a significant portion of government revenue, some readers of this dissertation may challenge the validity by confining the present study in the land and housing domain of the colonial government, (See Section 1.4 for details). It is true that the findings of this study cannot represent the behaviour of all government bureaucrats in the colonial legacy. Thus, drawing other sectors of government revenue into the analysis of budgetary politics is required.

**APPENDIX I**

***PROFILE OF INTERVIEWEES***

INTERVIEWEES		RANK	BELONGED DEPARTMENTS
A	N/A		Former chairman of the Finance Committee of the Hong Kong Legislative Council
B	Senior Lands Officer		Lands Department
C	Senior Administrative Officer		Housing Branch
D	Senior Information Officer		Housing Department
E	Senior Executive Officer		Housing Authority
F	Senior Executive Officer		Rating and Valuation Department

## APPENDIX II

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### ***INTERVIEW QUESTIONS***

### ***FOR THE LAND AND HOUSING ADMINISTRATIVE DEPARTMENTS***

## **The Chinese University of Hong Kong**

### **Department of Government & Public Administration**

This interview aims to research the behaviour of Hong Kong Civil Servant. The interview will be recorded by tape where all the information of the interviewee(s) will be kept confidential and it will only be used for academic research purpose.

Chu Yan-kit  
(Interviewer, MPhil student at CUHK)

1. What is your job duty in your department? Any special projects recently?
2. Somebody think that administrative departments have autonomy on how government policy should be implemented. What do you think?
3. May you describe the estimate drafting procedures of your department?
4. Would you give a brief introduction of the administration structure of your department and its inter-related government agencies, e.g. the Town Planning Department, Building Department, Housing Branch, Lands and Works Branch, Finance Branch etc.
5. Some say that government departments will exaggerate their *department budget or part of their budget* so that they can enjoy a higher flexibility and security of department management in terms of money and resource usage? What do you think?
6. Are there any clues that you may look for about what might be acceptable to the Finance Branch? If yes, what are the clues?
7. How do your department allocate the priorities among programmes?



## APPENDIX III:

### *INTERVIEW QUESTIONS FOR THE FINANCE COMMITTEE OF THE LEGCO*

#### **The Chinese University of Hong Kong Department of Government & Public Administration**

This interview aims to research the behaviour of Hong Kong Civil Servant. The interview will be recorded by tape where all the information of the interviewee(s) will be kept confidential and it will only be used for academic research purpose.

Chu Yan-kit  
(Interviewer, MPhil student at CUHK)

1. What is your job duty in the Finance Committee previously? Do you come across some special projects?
2. What do you think of your job duty in the Finance Committee? How do you tackle your job in general?
3. Somebody think that administrative departments have the autonomy on how government policy should be implemented. What do you think?
4. May you describe the budget drafting procedures of the committee?
5. What do you think about the relations between the committee and various administrative departments and the relations of the departments and the policy branches?
6. Some scholars say that public housing provision of Hong Kong Government tend to favour the businessmen and to subordinate the interest of the citizens in terms of decision making of community affairs, population density and recreational space. What do you think?
7. What do you think about the relations of your department and the Housing Authority and Hong Kong Housing Association?
8. Some say that government departments will exaggerate their department budget so that they can enjoy a higher flexibility and security of department management in terms of money and resource usage? What do you think?
9. Do the Committee usually cut funding requests, or give more than expected or approve the exact amount they need?
10. Does the Committee tend to give favourable consideration to acquisition of very sophisticated technical equipment?
11. How do you /your branch /your Committee set up the priority among different programmes?

## Appendix IV:

### *INTERVIEW QUESTIONS FOR THE HOUSING BRANCH*

#### **The Chinese University of Hong Kong**

#### **Department of Government & Public Administration**

This interview aims to research the behaviour of Hong Kong Civil Servant. The interview will be recorded by tape where all the information of the interviewee(s) will be kept confidential and it will only be used for academic research purpose.

Chu Yan-kit

(M Interviewer, M.Phil student at CUHK)

1. How is the formulation of the LTHS 1997 determined?
2. Have the standards and principles of the LTHS been kept unchanged in the past two decades?
3. LTHS consists of a number of aspects, namely private sector housing, public sector housing, urban renewal, land and planning. Also, it seems involve many agencies of the colonial government? Would you tell me (i) what are they & (ii) their particular roles in it?
4. The LTHS is subjected to the change with housing demand. How would the HA coordinate its role among under the policy branch of the colonial government and the private sector?
5. The government has been increasingly enticing the private sector's participation in either the public sector housing, like HOS, PSPS. Could you tell me what exactly the role of the private sector in the mentioned project items?
6. May you describe the budget drafting procedures of your branch and how it is related to the other policy branches and various administrative departments of the colonial government?
7. How does your branch set up the priority of different programmes?



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